TO AUTHORIZE APPROPRIATIONS FOR TIED AID CREDIT

HEARINGS

BEFORE THE

SUBCOMMITTEE ON INTERNATIONAL FINANCE, TRADE AND MONETARY POLICY

OF THE

COMMITTEE ON BANKING, FINANCE AND URBAN AFFAIRS HOUSE OF REPRESENTATIVES

NINETY-NINTH CONGRESS

FIRST SESSION

ON

H.R. 1857

A BILL TO AMEND THE EXPORT-IMPORT BANK ACT OF 1945 TO PROVIDE COMPETITIVE EXPORT FINANCING

H.R. 3515

A BILL TO ELIMINATE FOREIGN PREDATORY EXPORT CREDIT PRACTICES, ESTABLISH A TIED AID CREDIT FACILITY, AND FOR OTHER PURPOSES

H.R. 3296

A BILL TO AMEND THE TRADE AND DEVELOPMENT ENHANCEMENT ACT OF 1983 TO PROVIDE FOR BETTER COORDINATION BETWEEN THE TIED AID CREDIT PROGRAMS ESTABLISHED IN THE EXPORT-IMPORT BANK AND THE AGENCY FOR INTERNATIONAL DEVELOPMENT AS A DEFENSE AGAINST THE ABUSIVE USE OF MIXED CREDITS BY FOREIGN COUNTRIES, TO DIRECT THE EXPORT-IMPORT BANK TO EXPAND ITS EFFORTS TO PROMOTE SMALL BUSINESS EXPORTS, AND FOR OTHER PURPOSES

OCTOBER 16, 23; NOVEMBER 6; AND DECEMBER 3, 1985

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TO AUTHORIZE APPROPRIATIONS FOR TIED AID CREDIT

WEDNESDAY, OCTOBER 16, 1985

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON INTERNATIONAL FINANCE,
TRADE AND MONETARY POLICY,
COMMITTEE ON BANKING, FINANCE AND URBAN AFFAIRS,
Washington, DC.

The subcommittee met, pursuant to call, at 10:30 a.m., in room 2222, Rayburn House Office Building, Hon. Stephen L. Neal, (chairman of the subcommittee) presiding.

Present: Chairman Neal; Representatives LaFalce, Levin, Chandler, Kolbe, and McMillan.

Also present: Representative Doug Bereuter of the full committee.

Chairman NEAL. Let me call the hearing to order.

Welcome to our witnesses and guests.

This morning we begin hearings on tied-aid credit, or mixed credits, as it is widely known. We have several bills before us—H.R. 1857, sponsored by Mr. Lundine, H.R. 3296, sponsored by Mrs. Johnson, and H.R. 3515, the administration's bill, sponsored by Mr. Wylie. Though they differ in important respects, they all recognize that the administration has failed, so far, to develop an aggressive and effective program for mixed credits.

Since some members may be new to this issue, I would like to take a moment to review some of its recent history. First, a little definition. "Tied-aid credit" is a loan, for the financing of exports, that contains a subsidy, or a grant element, greater than the amount allowed under the OECD arrangement, the international agreement that governs official export credit. The arrangement sets minimum interest rates for such credit. Official export credit with an interest rate lower than the arrangement minimum would be tied-aid credit.

What is the point of this arrangement if countries can offer rates below its minimums? Through a formula established by the OECD, we can compute the grant element contained in tied-aid credit—roughly, the portion of the loan that is, in effect, a gift. The arrangement prohibits tied-aid credit with a grant element less than 25 percent.

Thus, the arrangement is not pointless. It says, in essence, that any member government can offer super subsidy loans, with terms more generous than permitted for conventional export credit, but only if their grant element is greater than 25 percent.

In general, our exporters cannot, on their own, compete against foreign exporters armed with tied-aid credit. A grant element greater than 25 percent is usually too much to overcome, no matter how good our product might be. To compete, our exporters must also be able to offer financing with a similar degree of subsidy.

The Export-Import Bank has always had the authority to offer tied-aid credit, carrying a grant element of any degree. The Export-Import Bank Act grants the Exim Board the authority to set the terms—interest rate, maturity, et cetera—on its loans, as it sees fit.

Despite this existing authority, the Congress passed a new law, the Trade and Development Enhancement Act of 1983, to establish a tied-aid credit program within the Eximbank, and within AID. But this law gave Exim no new authority—as I have pointed out, Exim already had the authority to do mixed credits—and it gave Exim no new funds. Why would Congress enact such a charade?

Many in the Congress were aware that mixed credits were a growing threat to American exporters, and that we were not making much progress in negotiating improvements in the arrangement to restrict their use. We thought we needed a war chest to give our negotiators some ammunition, and to protect our exporters.

I devised a detailed tied-aid credit program as part of Exim reauthorization bill in 1983. Criteria for its use were carefully delineated. It was to be used to combat the abuse of tied-aid credit, that is, the use of mixed credits not as legitimate foreign aid, but primarily to steal commercial export markets. And it was to be used against countries that blocked progress in negotiating greater discipline over tied-aid credit. Most importantly, it authorized a substantial appropriation for Eximbank mixed credits.

The appropriation of funds was the key to my proposal. Without appropriated funds, the Eximbank would suffer serious losses on tied-aid credit, since the subsidy therein is, by definition, very large. These losses would rapidly deplete its capital and reserves, which were already suffering serious erosion from losses in its regular lending programs.

It seemed to me obvious that if Congress wanted Exim to make loans with subsidies as large as those embedded in tied-aid credit, Congress should appropriate the money to cover those losses. It should not duck the issue by pretending these loans would not be very costly, or by pretending that Exim could develop an aggressive mixed credits program by drawing solely on its existing capital base.

Unfortunately, the administration opposed my mixed credits proposal in 1983. For reasons I have never quite understood, the exporting community also opposed it, and many Republicans on this committee opposed it.

An attempt to delete it from the bill failed in full committee markup, on a virtually straight partyline vote. Nonetheless, the opposition succeeded in deleting the mixed credits program from the bill when it came to the floor.

As a consequence, we were eventually forced to accept, with only one minor change, the mixed credits program championed by Senate Republicans and some exporters. That program, the Trade and Development Enhancement Act of 1983, was empty rhetoric,

unsupported by real funds. Its supporters must have thought that an expression of congressional intent, devoid of any new authority or money, would induce Exim to commence an aggressive mixed credits program, despite the losses Exim would inevitably suffer, and despite the administration's well-known reluctance to play that game.

Now, 2 years later, we have come full circle. The program on the books has obviously failed. A few mixed credits have been offered, but not enough to have much impact. Negotiations to discipline the use of tied-aid credit are still at an impasse.

In the meantime, our budget deficit has exploded. What would have been costly but feasible 2 years ago is just as costly today, but less feasible, given our desperate budget constraints. Nonetheless, the administration now wants an honest appropriation to pay for mixed credits, and promises to use it aggressively.

All of the proposals on mixed credits before us call for an appropriation of new funds. But they differ considerably in other aspects. If we are going to legislate on mixed credits, we need to confront three issues: No. 1, who will control the funds for mixed credits? No. 2, should a mixed credits program in AID be retained? No. 3, what criteria should be established for the use of mixed credits? I approach these questions with an open mind and look forward to what our witnesses this morning will advise us.

Our first panel of witnesses consists of the Honorable Stan Lundine, the Honorable Nancy Johnson, and the Honorable Chalmers Wylie, all sponsors of legislation on tied-aid credit. Then we will hear from the Chairman of the Export-Import Bank, the Honorable William Draper, and from Mr. Robert Cornell, Deputy Assistant Secretary of the Treasury for International Trade and Investment Policy.

We have scheduled a second day of hearings, October 23, for testimony from the exporting community and private witnesses.

I would like to thank our witnesses again. Our distinguished colleagues have spent a lot of time on this subject and I certainly look forward to their advice.

It would help us, I think, if remarks were as brief as possible so that we might have a chance to ask some questions of our distinguished panel and also since the bills that they are promoting are somewhat different, one from the other, that they might have the opportunity to comment on each other's proposals.

We would certainly welcome hearing that.

Are there other statements from subcommittee members?

If not, we would like to hear from our witnesses at this time. We will hear from Mr. Wylie first, Mr. Lundine, and then Mrs. Johnson.

Chalmers, welcome. Thank you, sir.

STATEMENT OF HON. CHALMERS P. WYLIE, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF OHIO

Mr. WYLIE. Thank you very much, Mr. Chairman, and members of this subcommittee.

I do sincerely appreciate the opportunity to appear here today to testify in support of the Fair Export Financing Act of 1985, H.R.

3515, which I was asked, as you pointed out, to introduce at the request of the administration. I was asked to put that in the hopper in anticipation of the meeting of the IMF in Seoul, Korea, and I thought I owed it to Chairman St Germain to give him the courtesy of letting him know I was going to introduce the bill.

He asked me if he could take a look at it. After he did that he decided to go on it as a cosponsor with me. So it has been introduced by myself and the chairman of the full committee.

Let me commend you, Mr. Chairman, for your courtesy and contribution in convening these timely hearings. Moreover, the introduction of your legislation in the 98th Congress and the ultimate adoption of the Trade and Development Enhancement Act of 1983, I think, have helped give the issue of predatory mixed credit financing the attention it deserves and I compliment you for it.

It seems like you were a little bit ahead of the time in your thinking on this subject. It is my understanding that at present American exporters cannot compete against their heavily subsidized foreign competitors.

From my perspective, I view the President's tied-aid credit proposal as the next logical step toward what I am sure is our common goal of eliminating such costly and market extorting export financing subsidies.

As you mentioned, Mrs. Johnson of Connecticut who is on my right has introduced her bill and Mr. Lundine on my left has introduced his bill, and I want to commend each of them for their work in this area, as well.

I have long believed Congress ought to listen carefully to the executive branch of our Government when it requests authority for a desired goal, especially in the area of American exports and foreign trade.

The stories of predatory export financing are well known to us. I am attaching to my own statement two articles which describe the growth and abuse of this foreign aid and commercial credit. Last month in his trade speech, President Reagan asked us for a war chest to support up to $1 billion in mixed credit export financing. These funds the President stated will counter our loss of business to trading partners who use what, in effect, are subsidies to deprive U.S. companies of fair access to world markets.

All of us will agree, I am sure, that the blending of AID funds with export credits is a gross distortion of both foreign aid and trade.

We need an aggressive program that is aimed at getting on with international negotiations to eliminate tied-aid credit. Recalcitrant nations need to be brought back to the bargaining table and that is clearly the intent of the legislation which I have introduced.

I am well aware of the fact, and you alluded to this, Mr. Chairman, that the approach will require an appropriation of $300 million. But in my view, it is less expensive to authorize this sum of money now to eliminate the abuses in the trading system. I think it will cost three or four times as much in the long run if we don't stop it now.

The Fair Export Financing Act would substantially modify the Trade and Development Enhancement Act of 1983 to give the Secretary of the Treasury both a carrot and stick to approach the 22

other industrial nations to restrict these predatory trade practices. Elevating this war chest to the Treasury Department but still in conjunction with the U.S. Export-Import Bank will give Secretary Baker the kind of leveraging he needs to prevent the United States from losing more export sales.

To prevent the war chest from becoming a permanent subsidy or entitlement program, the legislation clearly defines the purpose in sections 1 and 2 which links the war chest to our negotiating objectives.

Moreover, Treasury will retain tight control over the fund and the President does have the clear discretion to end this subsidy program if sufficient progress in the negotiations is attained.

Finally, the legislation does sunset on September 30, 1987. Mr. Chairman, in closing, let me say that the substance of export trade is too important to the American economy to be anything but a bipartisan issue.

Many trade bills have been introduced on both sides of the aisle covering the broad spectrum of our trade objectives. I must say, however, that I was genuinely pleased at the strong showing of bipartisan support for the administration's Fair Export Financing Act to date and as of today we have over 60 Members, including the majority leader, Mr. Wright, Mr. Michel, Mr. Lott, Chairman St Germain, and a majority of the Banking Committee members have joined me in cosponsoring this effort to bring predatory export financing to a screeching halt.

I look forward to working closely with you, Mr. Chairman, and other members of this committee to enact legislation to accomplish our common goals. Thank you very much for the opportunity to appear this morning and I ask unanimous consent that a copy of my bill H.R. 3515, and a section-by-section analysis of the legislation be included as part of the record.

Chairman NEAL. Without objection, so ordered.

[The prepared statement of Mr. Wylie, the text of H.R. 3515, a section-by-section analysis of the bill and articles related to the hearing follow:]

STATEMENT OF HON. CHALMERS P. WYLIE
HEARINGS ON H.R. 3515, FAIR EXPORT FINANCING ACT OF 1985
SUBCOMMITTEE ON INTERNATIONAL FINANCE,
TRADE AND MONETARY POLICY
OCTOBER 16, 1985

MR. CHAIRMAN, MEMBERS OF THE SUBCOMMITTEE:

THANK YOU FOR THE OPPORTUNITY TO APPEAR TODAY TO TESTIFY ON BEHALF OF THE FAIR EXPORT FINANCING ACT OF 1985, H.R. 3515, WHICH I HAVE INTRODUCED ON BEHALF OF THE ADMINISTRATION. LET ME COMMEND YOU, MR. CHAIRMAN, FOR YOUR COURTESY AND CONSIDERATION IN CONVENING THESE TIMELY HEARINGS. MOREOVER, THE INTRODUCTION OF YOUR LEGISLATION IN THE 98TH CONGRESS AND THE ULTIMATE ADOPTION OF THE TRADE AND DEVELOPMENT ENHANCEMENT ACT OF 1983 HAVE HELPED TO GIVE THE ISSUE OF PREDATORY MIXED CREDIT FINANCING THE ATTENTION IT DESERVES. IT IS MY UNDERSTANDING THAT AT PRESENT AMERICAN EXPORTERS CANNOT COMPETE AGAINST THEIR HEAVILY SUBSIDIZED FOREIGN COMPETITORS.

FROM MY PERSPECTIVE, I VIEW THE PRESIDENT'S TIED AID CREDIT PROPOSAL AS THE NEXT LOGICAL STEP TOWARD WHAT I AM SURE IS OUR COMMON GOAL OF ELIMINATING SUCH COSTLY AND MARKET-EXTORTING EXPORT FINANCING SUBSIDIES. OTHER COLLEAGUES OF OURS, SUCH AS MRS. JOHNSON OF CONNECTICUT (H.R. 3296, THE COMPETITIVE AMERICAN EXPORT FINANCING ACT) AND MR. LUNDINE OF NEW YORK (H.R. 1857, THE EXPORT PROMOTION AND FAIR CREDIT ACT OF 1985) ARE TO BE COMMENDED FOR THEIR WORK IN THIS AREA AS WELL.

I HAVE LONG BELIEVED THAT CONGRESS OUGHT TO LISTEN CAREFULLY WHEN THE EXECUTIVE BRANCH OF OUR GOVERNMENT REQUESTS NEW AUTHORITY TO ACHIEVE A DESIRED GOAL. THIS IS PARTICULARLY TRUE IN AREAS WHERE THERE ARE CLEAR AND PRESENT DANGERS FOR AMERICAN EXPORTERS. THE STORIES OF PREDATORY EXPORT FINANCING ARE WELL KNOWN TO US, AND I AM ATTACHING TO MY STATEMENT TWO RECENT ARTICLES DESCRIBING THE EXTENT AND GROWTH OF THIS ABUSE OF FOREIGN AID AND COMMERCIAL CREDIT. LAST MONTH IN HIS TRADE SPEECH, PRESIDENT REAGAN ASKED US FOR A "WAR CHEST" TO SUPPORT UP TO $1 BILLION IN MIXED CREDIT EXPORT FINANCING. "THESE FUNDS," THE PRESIDENT STATED, "WILL COUNTER OUR LOSS OF BUSINESS TO TRADING PARTNERS WHO USE WHAT, IN EFFECT, ARE SUBSIDIES TO DEPRIVE U.S. COMPANIES OF FAIR ACCESS TO WORLD MARKETS."

ALL OF US WILL AGREE, I AM SURE, THAT THE BLENDING OF AID FUNDS WITH EXPORT CREDITS IS A GROSS DISTORTION OF BOTH AID AND TRADE. WE NEED AN AGGRESSIVE PROGRAM THAT IS AIMED AT GETTING ON WITH THE INTERNATIONAL NEGOTIATIONS TO ELIMINATE TIED AID CREDITS. RECALCITRANT NATIONS NEED TO BE BROUGHT BACK TO THE BARGANING TABLE AND THAT IS CLEARLY THE INTENT OF THE LEGISLATION I HAVE INTRODUCED. I AM WELL AWARE THAT THE APPROACH WILL REQUIRE THE FULL APPROPRIATION OF SOME $300 MILLION. BUT, IN MY VIEW, IT IS LESS EXPENSIVE TO AUTHORIZE THIS SUM OF MONEY NOW TO ELIMINATE THE ABUSE OF THE TRADING SYSTEM RATHER THAN TO START AN OPEN-ENDED MIXED CREDIT ENTITLEMENT PROGRAM WHICH COULD COST THREE OR FOUR TIMES MORE.

THE FAIR EXPORT FINANCING ACT WOULD SUBSTANTIALLY MODIFY THE TRADE AND DEVELOPMENT ENHANCEMENT ACT OF 1983 TO GIVE THE SECRETARY OF THE TREASURY BOTH A CARROT AND A STICK TO APPROACH THE 22 OTHER INDUSTRIAL COUNTRIES TO RESTRICT THESE PREDATORY TRADE PRACTICES. ELEVATING THIS WAR CHEST TO THE TREASURY DEPARTMENT, BUT STILL IN CONJUNCTION WITH THE U.S. EXPORT-IMPORT BANK, WILL GIVE SECRETARY BAKER THE KIND OF LEVERAGE I THINK HE NEEDS TO PREVENT THE UNITED STATES FROM LOSING MORE EXPORT SALES. TO PREVENT THE WAR CHEST FROM BECOMING A PERMANENT SUBSIDY OR ENTITLEMENT PROGRAM, THE LEGISLATION CLEARLY DEFINES THE PURPOSE IN SECTIONS 1 AND 2 WHICH LINKS THE WAR CHEST TO OUR NEGOTIATING OBJECTIVES. MOREOVER, TREASURY WILL RETAIN TIGHT CONTROL OVER THE FUND AND THE PRESIDENT DOES HAVE THE CLEAR DISCRETION TO END THIS SUBSIDY PROGRAM IF SUFFICIENT PROGRESS IN THE NEGOTIATIONS IS ATTAINED. FINALLY, THE LEGISLATION DOES SUNSET ON SEPTEMBER 30, 1987.

MR. CHAIRMAN, IN CLOSING, LET ME JUST SAY THAT THE SUBJECT OF TRADE IS TOO IMPORTANT TO THE AMERICAN ECONOMY TO BE ANYTHING BUT A BIPARTISAN ISSUE. MANY TRADE BILLS HAVE BEEN INTRODUCED ON BOTH SIDES OF THE AISLE COVERING THE BROAD SPECTRUM OF OUR TRADE OBJECTIVES. I MUST SAY, HOWEVER, THAT I WAS GENUINELY PLEASED AT THE STRONG SHOWING OF BIPARTISAN SUPPORT FOR THE ADMINISTRATION'S FAIR EXPORT FINANCING ACT. TO DATE, OVER 60 MEMBERS -- INCLUDING THE MAJORITY LEADER, MR. WRIGHT; THE MINORITY LEADER, MR. MICHEL; CHAIRMAN ST GERMAIN; AND A MAJORITY OF THE BANKING COMMITTEE MEMBERS -- HAVE JOINED ME IN COSPONSORING THIS EFFORT TO BRING

PREDATORY EXPORT FINANCING TO A SCREECHING HALT. I LOOK FORWARD TO WORKING CLOSELY WITH YOU, MR. CHAIRMAN, AND OTHER COMMITTEE MEMBERS TO ENACT LEGISLATION TO ACCOMPLISH OUR COMMON GOALS.

THANK YOU FOR THE OPPORTUNITY TO APPEAR THIS MORNING, AND I ASK UNANIMOUS CONSENT THAT A COPY OF H.R. 3515 AND A SECTION-BY-SECTION ANALYSIS BE INCLUDED AS PART OF MY TESTIMONY.

99TH CONGRESS
1ST SESSION

H. R. 3515

To eliminate foreign predatory export credit practices, establish a tied aid credit facility, and for other purposes.

IN THE HOUSE OF REPRESENTATIVES

OCTOBER 7, 1985

Mr. WYLIE (for himself, Mr. ST GERMAIN, Mr. BARNARD, Mr. BARTLETT, Mr. BEREUTER, Mr. CARPER, Mr. CHANDLER, Mr. COOPER, Mr. DREIER of California, Mr. ERDREICH, Mr. FRANK, Mr. GONZALEZ, Mr. GORDON, Mr. GROTBERG, Mr. KLECZKA, Mr. KOLBE, Mr. LAFALCE, Mr. LEACH of Iowa, Mr. LEHMAN of California, Mr. LEVIN of Michigan, Mr. MCCOLLUM, Mr. MCKINNEY, Mr. MCMILLAN, Mr. NELSON of Florida, Ms. OAKAR, Mr. PARRIS, Mrs. ROUKEMA, Mr. VENTO, Mr. WORTLEY, Mr. WRIGHT, Mr. MICHEL, Mr. LOTT, Mr. LAGOMARSINO, Mr. CHENEY, Mr. LEWIS of California, Mr. VANDER JAGT, Mr. BROOMFIELD, Mr. CHAPPELL, Mr. CONTE, Mr. CRAIG, Mr. DEWINE, Mr. FRENZEL, Mr. GINGRICH, Mr. GRADISON, Mr. HYDE, Mr. IRELAND, Mr. KASICH, Mr. MCCAIN, Mr. MCEWEN, and Mr. SAXTON) introduced the following bill; which was referred to the Committee on Banking, Finance and Urban Affairs

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A BILL

To eliminate foreign predatory export credit practices, establish a tied aid credit facility, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That this Act may be cited as the "Fair Export Financing Act of 1985".

SECTION 1. CONGRESSIONAL FINDINGS.

Congress finds that—

(a) tied aid and partially untied aid credits offered by other countries are a predatory method of financing exports because of their market-distorting effects;

(b) these distortions have caused the United States to lose export sales, with resulting losses in economic growth and employment;

(c) these practices undermine export credit discipline under the Arrangement on Guidelines for Officially Supported Export Credits established through the Organization for Economic Cooperation and Development;

(d) support of commercial exports by donor countries with tied aid and partially untied aid credits impedes the growth of developing countries because it diverts development assistance funds from essential developmental purposes; and

(e) establishment of a temporary tied aid credit facility in the Department of the Treasury for the limited purpose of targeting the export markets of those countries which make extensive use of tied aid or partially untied aid credits for commercial purposes and which block progress toward a comprehensive arrangement restricting the use of tied aid and partially untied aid credits for commercial purposes will encourage the suc-

cessful conclusion of negotiations aimed at such an arrangement.

SEC. 2. AMENDMENTS TO THE TRADE AND DEVELOPMENT ENHANCEMENT ACT OF 1983.

(a) Section 642 of the Trade and Development Enhancement Act of 1983 (12 U.S.C. 635o) is amended—

(1) by amending subsection (1) to read as follows:

"(1) to expand employment and economic growth in the United States through the elimination of predatory concessional financing in the form of tied aid or partially untied aid credits engaged in by nations whose exports compete with United States exports, and thereby restore export competition to a market basis;";

(2) by amending subsection (2) to read as follows:

"(2) to stimulate the economic development of countries in the developing world by taking measures to eliminate the misallocation of official development assistance funds which occurs when such funds are employed in tied aid or partially untied aid credits, the primary purpose of which is the promotion of the commercial exports of the donor country rather than the development of the recipient country; and";

(3) by repealing subsection (3); and

(4) by renumbering subsection (4) as subsection (3) and amending it to read as follows:

"(3) to establish a temporary tied aid credit program to combat the predatory concessional credit programs of foreign governments and thereby encourage them to enter into effective and comprehensive arrangements with the United States to restrict the use of tied aid and partially untied aid credits for commercial purposes and to limit and govern the use of export credit subsidies generally.".

(b) Section 643 of the Trade and Development Enhancement Act of 1983 (12 U.S.C. 635p) is amended—

(1) by inserting in the first sentence of the introductory paragraph the words, "or partially untied aid" after the words, "the use of field aid";

(2) by repealing subsection (1);

(3) by renumbering subsection (2) as subsection (1) and amending it to read as follows:

"(1) to restrict the use of tied aid and partially untied aid credits for commercial purposes by a date certain;";

(4) by repealing subsection (3);

(5) by renumbering subsection (4) as subsection (2) and amending it to read as follows:

"(2) to raise the threshold for prior notification of the use of tied aid or partially untied aid credit to a 50 per centum level of concessionality; and";

(6) by repealing subsection (5); and

(7) by renumbering subsection (6) as subsection (3) and amending it to read as follows:

"(3) to prohibit the use of tied aid or partially untied aid credit for production facilities for goods which are in structural oversupply in the world.".

(c) Section 644 of the Trade and Development Enhancement Act of 1983 (12 U.S.C. 635q) is amended to read as follows:

"ESTABLISHMENT OF A TIED AID CREDIT PROGRAM IN THE DEPARTMENT OF THE TREASURY

"SEC. 644. (a)(1) The Secretary shall establish within the Department of the Treasury a program of tied aid credits for United States exports.

"(2) The program shall be carried out in cooperation with the Bank or with private financial institutions or entities, as appropriate.

"(3) The program may include—

"(A) the combined use of guarantees, insurance, or extensions of credit offered by the Bank with grants offered by the Department of the Treasury, by methods including blending of financings or parallel financing; and

"(B) the combination of grants offered by the Department of the Treasury with financing offered by private financial institutions or entities, by methods including blending of financings or parallel financing.

"(b) Funds appropriated under this part may be combined with financing by the Bank or private commercial financing in order to offer, or arrange for, financing for the exportation of United States goods and services to countries or in sectors which are present or likely future export markets for any country which the Secretaries determines engages in predatory export financing through the use of tied aid or partially untied aid credits and which impedes progress towards the conclusion of a comprehensive arrangement to restrict the use of such credits for commercial purposes.

"(c) There is hereby authorized to be appropriated to the Secretary, without fiscal year limitation, for purposes of this part, $300 million: *Provided,* That notwithstanding any other provision of law, upon a declaration by the President that any portion of such funds is not required to achieve the purposes of this part, the funds so determined to be in excess of requirements shall cease to be available.".

(d) Section 645 of the Trade and Development Enhancement Act of 1983 (12 U.S.C. 635r) is repealed.

(e) Section 646 of the Trade and Development Enhancement Act of 1983 (12 U.S.C. 635s) is renumbered as section 645 and amended to read as follows:

"IMPLEMENTATION

"SEC. 645. (a) Prior to approving each financing under the tied aid credit program authorized by section 644, the Secretary shall seek the advice of the National Advisory Council on International Monetary and Financial Policies.

"(b) Each financing made pursuant to the tied aid credit program authorized by section 644 shall be on the terms consistent with the Arrangement, as in effect at the time such financing is approved.

"(c) The Secretary may issue regulations and take such other actions as may be necessary to implement this part.

"(d) The authorities contained in this part expire on September 30, 1987.".

(f) A new Section 646 is added to the Trade and Development Enhancement Act to read as follows:

"REVIEWABILITY

"SEC. 646. Actions by the Secretary and the Chairman of the Bank pursuant to this part shall not be reviewable by any court, except for abuse of discretion.".

(g) Section 647 of the Trade and Development Enhancement Act of 1983 (12 U.S.C. 635t) is amended as follows—

(1) Subsection (1) is amended to read as follows:

"(1) the term 'tied aid credit' means credit—

"(A) which involves a grant element greater than zero percent, as determined by the Development Assistance Committee of the Organization for Economic Cooperation and Development;

"(B) which is tied, in fact or in effect, to procurement of goods and services from the donor country; and

"(C) which is financed either exclusively from public funds or partly from public and partly from private funds;";

(2) Subsection 647(2) is repealed and replaced by a new subsection 647(2) which reads as follows:

"(2) the term 'partially untied aid credit' means credit—

"(A) which involves a grant element greater than zero percent, as determined by the Development Assistance Committee of the Organization for Economic Cooperation and Development;

"(B) which is tied, in fact or in effect, to procurement of goods and services from the donor country and from a restricted number of countries; and

"(C) which is financed either exclusively from public funds or partly from public and partly from private funds;";

(3) Subsection 647(3) is repealed;

(4) Subsections (4), (5), and (6) are renumbered subsections (3), (4), and (5), respectively;

(5) A new subsection 647(6) is added to read as follows—

"(6) the term 'Secretary' means the Secretary of the Treasury;" and

(6) A new Subsection 647(7) is added to read as follows:

"(7) the term 'Arrangement' means the Arrangement on Guidelines for Officially Supported Export Credits established through the Organization for Economic Cooperation and Development.".

SEC. 3. The amendments made by this Act shall become effective sixty days after the date of enactment.

○

SECTION-BY-SECTION ANALYSIS

Section 1. This section states that Congress finds that tied aid and partially untied aid credits as currently offered by other nations are a predatory method of financing exports; that the market-distorting effects of these practices have caused the United States to lose export sales; that these practices undermine export credit discipline within the Organization for Economic Cooperation and Development; that these predatory practices impede the growth of developing countries to the extent they divert funds away from development assistance; and that a temporary tied aid credit facility in the Department of the Treasury targeted at the export markets of those countries which engage in such tied aid and partially untied aid credits and which block progress toward an arrangement to restrict tied aid credits will encourage the successful conclusion of such an arrangement.

Section 2. This section amends the Trade and Development Enhancement Act of 1983.

Section 2(a) amends section 642 of the Trade and Development Enhancement Act of 1983:

New subsection 642(1) states the goal of the United States to eliminate predatory concessional financing engaged in by other nations, and to restore export competition to a market basis.

New subsection 642(2) states the goal of the United States to stimulate economic development in the developing world by moving to eliminate tied aid and partially untied aid credits whose primary purpose is to promote commercial exports from developed countries.

New subsection 642(3) states the United States' intent to establish a temporary tied aid credit program to combat predatory credit programs of foreign governments. The purpose of this policy is to encourage those governments to enter into effective and comprehensive arrangements with the United States to restrict the use of tied aid and partially untied aid credits for commercial purposes and to limit and govern the use of export credit subsidies generally.

Section 2(b) amends section 643 of the Trade and Development Enhancement Act of 1983 to reflect the current status of negotiations aimed at restricting the use of tied aid and partially untied aid credits:

Existing subsections 643(1) and 643(3) are repealed because their objectives have already been agreed upon in negotiations.

New subsection 643(1) amends the existing negotiating mandate to call for a restriction on the use of partially untied aid credits as well as on the use of tied aid credits by a date certain.

Subsections 643(4) and 643(5) are consolidated into a new subsection 643(2). That subsection and new subsection 643(3) (formerly subsection 643(6)) are amended by adding references to partially untied aid credits.

Section 2(c) amends section 644 of the Trade and Development Enhancement Act of 1983:

New subsections 644(a)(1) and 644(a)(2) state that the Secretary of the Treasury shall establish a program of tied aid credits for U.S. exports, to be carried out in cooperation with the Export-Import Bank of the United States and with private financial institutions, as appropriate.

New subsection 644(a)(3) substitutes the Department of the Treasury in place of the Agency for International Development as a source of financing in paragraph (A) and in place of the Export Import-Bank in Paragraph (B).

New subsection 644(b) authorizes funds under this Act to be combined with financing by the Export-Import Bank in order to offer financing for exportation of U.S. goods and services to countries which are export markets for nations which engage in predatory tied aid or partially untied aid export credits and block progress toward an agreement to end tied aid credits.

New subsection 644(c) authorizes a $300 million appropriation to the Secretary to carry out this Act, provided that, notwithstanding any other provision of law, the President may declare any amount of the appropriation unnecessary to carry out the purposes of the Act, at which time any excess funds will cease to be available.

Section 2(d) repeals section 645 of the Trade and Development Enhancement Act of 1983, the section establishing a tied aid credit program in the Agency for International Development.

Section 2(e) amends section 646 of the Trade and Development Enhancement Act of 1983 and renumbers it as section 645:

New subsection 645(a) deletes the requirement for unanimous consent by the National Advisory Council on International and Monetary and Fiscal Policies, and instead requires that the Secretary of the Treasury seek the advice of that Council before approving each financing under this program.

New subsection 645(b) requires that each financing be made on terms consistent with the OECD Arrangement on Guidelines for Officially Supported Export Credits.

New Section 645(c) grants the Secretary of the Treasury authority to issue regulations and to take any other actions, which the Secretary may deem necessary to implement the Act.

New subsection 645(d) provides that all authorities under this Act expire September 30, 1987.

Section 2(f) adds a new section 646 to the Trade and Development Enhancement Act of 1983 to provide that actions taken by the Secretary of the Treasury and the Chairman of the Export-Import Bank of the United States under this Act are not reviewable by any court, except in cases of abuse of discretion.

Section 2(g) amends section 647--the definitions section--of the Trade and Development Enhancement Act of 1983:

New subsections 647(1) and 647(2) define "tied aid credit" and "partially untied aid credit" to conform to the definitions of those terms in the OECD Arrangement on Guidelines for Officially Supported Export Credits.

Subsection 647(3) is repealed and subsections (4), (5) and (6) are renumbered as subsections (3), (4) and (5).

New subsection 647(6) is added to define "Secretary" as the Secretary of the Treasury.

New subsection 647(7) is added to define the "Arrangement" as the Arrangement on Guidelines for Officially Supported Export Credits established through the Organization for Economic Cooperation and Development.

Section 3. This section provides that the amendments made by the Act shall become effective _____.

NEW YORK TIMES
September 26, 198

U.S. Export Financing Aimed at France, Japan

By CLYDE H. FARNSWORTH

Special to The New York Times

WASHINGTON, Sept. 25 — France and Japan are the main targets of a new policy the United States is preparing to fight what it is calling predatory export practices of foreign governments, Administration officials said today.

Discussing how the policy might be applied, one official offered the example of a French-speaking African country that decides to build a bridge or a power station and is looking for industrial country suppliers.

Because of their linguistic and cultural ties, French exporters traditionally get the lion's share of such business. But now the United States Government will reach into its pockets to offer such easy credit terms, if an American supplier is selected, that the African Government would have a hard time refusing.

The expected result: An American company, rather than a French one, will land the contract.

President Reagan sent up his request to Capitol Hill today for the $300 million that, in his trade speech Monday, he said he wants to use to fight foreign credit subsidies that "deprive U.S. companies of fair access to world markets."

He said his intention was to bring foreign governments to the negotiating table and get an international agreement to phase out and eventually eliminate the subsidies.

There is already an agreement among the industrial countries to limit subsidies of official financing. But the practice the President was referring to was an increasingly prevalent, mercantilist approach whereby France and Japan — and to a lesser extent such other countries as Britain, West Germany, Italy, Canada and Sweden — offer so-called mixed credits to get more export business in the third world.

A mixed credit is a combination of official financing at near-commercial rates with foreign aid money at concessional rates.

The so-called gentlemen's agreement on subsidies does not apply to foreign aid money, and the President's $300 million would amount to a form of indirect foreign aid by the United States.

The willingness of the United States to compete on export subsidies represents a significant about-face for the Reagan Administration, which came into office with the policy goal of phasing them out. Congress is likely to go along with the President because of the growing number of legislators favoring action to increase exports.

The United States has provided much foreign aid in recent years. Much of the assistance has gone to such countries as Israel and Egypt, where Washington has strong political ties. But the aid has not been linked to specific export contracts.

Developing countries are important buyers of machinery, technology, medical equipment and other products from industrial countries. Almost a third of all American exports are bought in the third world.

But with the debt crisis and hard times in many developing countries, the competition for business there has been intense. The battle is frequently fought over the credit terms that the exporter can offer.

To help their exporters compete, the Governments of France, Japan and other industrial countries have been subsidizing credit terms by linking foreign aid grants or loans to a specific export contract.

For example, Turkey a couple of years ago let it be known that it wanted to build a second bridge over the Bosporus connecting European Turkey to Asia Minor. A Japanese consortium earlier this year won that contract with a bid of $626 million that included $200 million in Government loans at 5 per cent, interest repayable over 25 years with a seven year grace period.

The 5 percent loan, which represented Japanese foreign aid to Turkey linked to the contract, compares with 11.3 percent that is called for under the gentlemen's agreement.

The volume of such mixed credits has risen enormously in recent years, which is one reason for the President's action. According to figures of the Paris-based Organization for Economic Cooperation and Development, which represents industrial countries, mixed credit offers rose from $2.3 billion in 1984 to $9.3 billion last year and are running this year at a rate of $7 billion.

The $300 million appropriation the Administration is seeking will stretch out to about $1 billion in financing offers, putting the United States in the same league as France and Japan.

A study by the German Institute of Economic Research in West Berlin found recently that over the last five years the percentage of official aid linked to deliveries of German goods has risen from 22 percent to 32 percent.

"Our intention is to block France and Japan and other countries from stealing business from the U.S.," said William H. Draper 3d, president of the Export-Import Bank.

He noted in an interview that the foreign practice of tying aid grants to commercial export credits has "scorched" American business, especially capital goods producers.

The Export-Import Bank, which provides financing for American exporters, has on a few occasions in the past put together mixed credit packages that match foreign offers.

To counter French offers, Trident provided to Cancunmex, Mexico, for exports of machine tools for aircraft manufacturing to Indonesia. $10 million was provided to Stromberg Carlson for purchase of digital switching equipment by the Government of Algeria, and $20 million was provided to Scientific Atlanta for [illegible] of satellite communications systems to the Algerian State Telecommunications Administration.

To counter a Japanese offer, the Ex-Im Bank provided $14.3 million in mixed credit financing to United Technologies and Aero Systems for purchase of a jet engine testing plant by the Garuda Indonesian Airlines.

One official said the new program is intended not just to match the foreign credit terms, but also to "steal business away in an aggressive and unpredictable way."

The operation is to be managed by the Treasury, working with the Ex-Im Bank. The cases are to be picked under the overall supervision of an interagency Cabinet level "strike force" under the chairmanship of Treasury Secretary James A. Baker 3d.

"Hopefully," this official added, "the French will come to us after not too long and say they're ready to negotiate."

This official and others in a series of interviews said it was French willingness to work out an accord on mixed credits that led to the American action.

Reagan Attacks Unfair Trade Practices By Foreign Nations With Modest Plan

By Art Pine and David Sombrero
Staff Reporters of The Wall Street Journal

WASHINGTON — President Reagan moved to defuse protectionist pressures in Congress by launching an attack against unfair trading practices by foreign nations—a major target of congressional ire.

In a speech before a group of corporate executives, the president vowed he would "not stand by and watch American businesses fail because of unfair trading practices abroad" and wouldn't "watch American workers lose their jobs because other nations do not play by the rules." He announced a series of modest measures, including the establishment of a $300 million "war chest" designed to counter France's practice of sweetening its regular export financing with foreign aid.

The White House also sought to portray yesterday's trade actions as part of a broader policy change that includes the campaign the U.S. and four other large industrial countries announced on Sunday to begin driving down the value of the dollar; many analysts blame the dollar's strength for the bulk of the rise in import competition in the U.S. While conceding that "it wasn't planned that way," a senior U.S. trade official told reporters in a briefing that the currency assault "should be considered an integral part of these activities."

Mr. Reagan took special pains in his speech yesterday to affirm his support for the intervention program. The administration also conceded for the first time in an accompanying position paper that it is "concerned about the effect of the dollar's rise in value on our ability to compete internationally." The document warned, "There are, however, no quick fixes for this situation."

Mr. Reagan also said he plans to propose legislation "clarifying" the provisions of the 1977 Foreign Corrupt Practices Act to "reduce disincentives" to exports. A senior administration official, assigned to explain Mr. Reagan's new program to reporters, said the Reagan administration believed "the pendulum has swung too far" in holding business accountable for international practices and that "the American business community cannot live with" the current provisions.

At the same time, however, Mr. Reagan warned he would continue to reject any efforts to close U.S. markets to imports. "Our trade policy rests firmly on the foundation of free and open markets—free trade," he declared. "If we ever faltered in the defense and promotion of the worldwide free trading system, that system will collapse to the detriment of all."

In an interview with The Wall Street Journal, Japan's Foreign Minister Shintaro Abe said the intervention accord clearly had important "psychological" effects, but he said it wasn't clear the action would stop Congress's protectionist drive.

"The very fact that the five foreign ministers met had a very big psychological effect," he said. "But it is very difficult to predict whether we can actually stop Congress." Passage of protectionist legislation in the U.S. might "precipitate global, political and economic confusion," he said.

Still, a major decline in the dollar yesterday raised hopes of European and Japanese politicians that the U.S. currency's long-awaited decline may have begun (see story on page 31).

White House officials portrayed the president's new emphasis on combating unfair foreign practices as a new turn in trade policy. Mr. Reagan chose that tack, they said, because the unfairness issue seems to have grated most on lawmakers, leading to protectionist bills. For months now, lawmakers have complained that Mr. Reagan has given short shrift to U.S. businesses' trade problems abroad.

Congressional Response

Nevertheless, congressional response to the president's address was muted. Senate Majority Leader Robert Dole said Mr. Reagan's speech "should cool the protectionist fires" in Congress, but Democrats said new trade legislation is still needed to prod the president into further action.

Rep. Dan Rostenkowski (D., Ill.), chairman of the House Ways and Means Committee, said the administration is "still way behind" Congress in "toughening our response to unfair trade." Sen. Lloyd Bentsen (D., Texas), said the president's speech has helped cool protectionist passions. But he added: "We want to see the substance and the follow-through. For a man who's changed his mind so quickly, you want to be sure his heart is really in it."

Interagency 'Strike Force'

The new trade measures the president announced were relatively modest; most had been disclosed previously by top administration officials. Besides the new export-credit war chest, the president said he would set up an interagency "strike force" to identify and prosecute unfair trading practices of foreign countries, and he would step up efforts to protect U.S. patents, copyrights and trademarks.

The administration also vowed to work with congressional leaders to draft a general trade bill designed to lure lawmakers away from more protectionist legislation. Although the White House won't submit its own legislation, it will suggest proposals to Congress that Mr. Reagan would find "acceptable."

The president essentially wants broader negotiating authority to begin new worldwide trade-liberalization talks. But he indicated he'll also agree to some tightening of procedures by which business can seek action against predatory pricing by foreign competitors and foreign government subsidies.

In the position paper, the administration said it "will step up the use of the authority given to it by Congress to address foreign unfair trade practices which distort U.S. trade and investment . . . and will see that other countries live up to their trade agreement obligations with the United States."

Chairman NEAL. Thank you, again, to our distinguished ranking minority member of the full committee. I would like to hear from Mr. Lundine at this time.

STATEMENT OF HON. STAN LUNDINE, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF NEW YORK

Mr. LUNDINE. Mr. Chairman, thank you for allowing me to be a witness at the outset of these hearings. I ask unanimous consent that my entire statement will be made part of the record.

Chairman NEAL. Without objection, so ordered.

Mr. LUNDINE. As you know, Mr. Chairman, I served as a member of this subcommittee for 7 years. Only the prospect of a chairmanship of another subcommittee lured me away, but it is a pleasure to be here today.

During my tenure, I actively participated in the 1983 reauthorization of the Eximbank to which you have already referred and I am not going to be redundant to go through that history which I think you have accurately described in your opening statement.

As you know, the number of tied aid credit offers is growing. In 1983, OECD reported over $3.2 billion in mixed credit business. They estimate that 1985 will exceed $6 billion in mixed credits to give you some idea of the growth. In my judgment, the 1983 act has failed to achieve a negotiated end to the mixed credits for several reasons. There has been a lack of leadership. By and large, the administration has picked only a few small mixed credit deals to try to demonstrate to our trading partners that we are determined to end their use.

It has also been due, as you indicated, to the resource limitations of the Eximbank and AID in supporting the aggressive mixed credits program. That is why in April I introduced H.R. 1857, a bill to create a $250 million fund within the Eximbank to deal with mixed credits.

Under my proposal, the special fund would be in addition to the tied aid credit program in the 1983 law. The bank would be able to use this fund both to originate mixed credit offers and to match offers made by foreign countries. In other words, this proposal would give the United States mixed credit team an offense as well as a defense.

I was pleased to learn of the administration's support of the creation of a war chest to deal with mixed credits. The commitment and priority which the administration seems to be giving this issue for the first time is exactly what is necessary to deal with the problem and we win a permanent end to the use of mixed credits.

I commend Treasury Secretary Baker and President Reagan for their initiative as well as Mr. Wylie and Chairman St Germain for introducing the administration bill. Nevertheless, I have several concerns over the details of the administration proposal. They propose to place a war chest in the Department of Treasury to be administered by the Secretary of the Treasury and as they do so, they propose to deauthorize the existing defensive program involving the Export-Import Bank and AID.

It just so happens, Mr. Chairman, that this very morning I received a telephone call about a deal affecting jobs in my own dis-

trict that illustrates the point of a defensive use of mixed credits. It seems that the Indian Government has advertised for a gas pipeline estimated to cost between $700 million and $900 million, and they made a very big point of saying that this award would probably go to the offer with the best financial terms. If that is not a code word for requesting of mixed credit, I don't know what is.

As it turns out, the French, the Canadians, the Italians, and the Japanese have all offered tied aid proposals to build this gas pipeline.

It is unclear whether we would be able to match them or not. If we don't, we are going to lose $63 million in work in New York and a commensurate amount of jobs in our district. That is the kind of reaction to what is going on in the real world that is very important tc preserve while we are forming some kind of a war chest in order to deal more aggressively with the offensive use of mixed credits in order to eventually end their use.

Until we negotiate the end of the use of mixed credits, I think it is unwise to deauthorize the existing program. We need the kind of aggressive capability which I am sure will be forthcoming from Treasury Secretary Baker, but we also need to retain this defensive capability.

In addition, I think it is very important that this not be money taken from one bank or source and delivered to another, but that if we really mean business about exports, if we really mean to add to our trade capability, in my judgment, whether it is $300 million, as the administration has proposed, or $250 million as I proposed, or whatever amount, it ought to be in additional funds.

If the Treasury wants to administer the offensive aspect and coordinate with the Eximbank, I think that is fine, but I think that the Eximbank is best positioned to administer particularly the defensive aspect of mixed credits and I think it is essential that we in Congress insist that this be additional funding. Otherwise, I don't see what great purpose we are really accomplishing in terms of providing financing to increase our export capacity.

In conclusion, let me say the Banking Committee has an important opportunity here to move forward in a timely way to report this legislation as a part of what I would hope to be other legislation related to trade that could come out of our committee.

I hope that we can do something, for example, with addressing the inflated value of the dollar out of the Banking Committee and address other trade issues within our jurisdiction.

I commend you for originating these hearings in a timely manner and I look forward to hearing from the other witnesses as well as to the proposals that are now on the table.

[The prepared statement of Congressmen Lundine and the text of H.R. 1857 follow:]

STATEMENT
of
CONGRESSMAN STAN LUNDINE
SUBCOMMITTEE ON INTERNATIONAL FINANCE, TRADE AND MONETARY POLICY
OCTOBER 16, 1985

As you know, Mr. Chairman, I served as a member of this subcommittee for seven years. During my tenure, I actively participated in the 1983 reauthorization of the charter of the Export-Import Bank, which included the establishment of a tied aid credit program to match foreign mixed credit offers in the Export-Import Bank.

The focus of the 1983 amendments was on countering foreign mixed credit offers. In approving that legislation, we theorized that if the United States put forth a strong defensive approach to mixed credits our foreign competitors who were using them would see the uselessness of mixed credits and negotiate an end to their use. To date, unfortunately that program has not succeeded in ending the use of mixed credits. In fact, the number of tied aid credit offers is growing. In 1983, the OECD reported over $3.2 Billion of mixed credit business. They estimate that mixed credit offers in 1985 will exceed $6 Billion.

In my judgement, the 1983 Act has failed to achieve a negotiated end to mixed credits for several reasons. It is partly because there has been a lack of aggressive leadership in this Administration on this problem. By in large, the Administration has picked only a few small mixed credit deals to try to demonstrate to our trading partners our determination to end their use. It has also been partly due to the resource limitations on both the Export-Import Bank and AID in supporting an aggressive mixed credit program.

I believe that if we are to end the use of mixed credits, we need to do more than we are now doing. This is why in April I introduced H.R. 1857, a bill to create a special $250 Million fund within the Export-Import Bank to deal with mixed credits. Under my proposal, this special fund would be in addition to the tied aid credit program in the 1983 law. The Bank would be able to use this fund both to originate mixed credit offers and to match offers made by foreign countries. In other words, this proposal would give the United States mixed credit team an offense as well as a defense.

I was pleased when I learned of the Administration's support for the creation of a "war chest" to deal with mixed credits.. The commitment and priority which the Administration seems to be giving this issue for the first time is exactly what is necessary to deal with this problem and win a permanent end to the use of mixed credits. I commend Treasury Secretary Baker and President Reagan for their initiative.

Nonetheless, I have several concerns over the details of the Administration proposal. They propose to place their war chest in

the Department of Treasury to be administered by the Secretary of the Treasury. As they do so, they propose deauthorizing the existing "defensive" program involving the Export-Import Bank and AID.

Until we negotiate an end to the use of mixed credits, I think it is unwise to deauthorize the existing program in the 1983 Act. To insure maximum effectiveness, language could be written into the bill so that the defensive and offensive mixed credit programs are appropriately coordinated, perhaps with the Secretary of the Treasury as the principal coordinator.

We need the kind of aggressive offensive capability which I am sure will be forthcoming from Secretary Baker at Treasury. But we also need to preserve a strong defensive capacity in the Export Import Bank. While it would be theoretically possible to conduct both defensive and offensive operations out of the war chest at Treasury, in reality the likelihood is that Treasury will end up focusing on offensive moves. This is to be expected since it is Treasury which formally negotiates international export credit arrangements.

I also urge this subcommittee to take steps to ensure that the authorization and appropriation for the Treasury Department "war chest" not be taken from existing Export-Import Bank programs. The "war chest" appropriation should be additional money. We will only damage our export performance if we shift resources from one pot to another without increasing our overall effort to more effectively promote U.S. exports. The additional money necessary for the creation of such a war chest, even during this most difficult period of budgetary strain, can be justified. One need not look too far beyond our projected $150 Billion trade deficit to determine why we must commit more resources in the trade area.

In conclusion, our goal must be to negotiate with our trading partners an end to the use of mixed credits. Mixed credits unfairly distort trade flows, often in key high technology export markets. We must be prepared to put both offensive and defensive muscle behind our negotiating efforts which will take markets from our competitors and protect U.S. exporters from foreign predatory practices.

I believe the Banking Committee has an important opportunity to move forward in a timely way to report this legislation as part of an overall package of bills aimed at reducing the disastrous U.S. trade deficit. Other committees of the House are presently moving forward with legislation within their jurisdictions designed to impact favorably on the U.S. trade posture. As an aside, which I hope to have further opportunity to discuss with you in the near future, in addition to action on mixed credits, as part of a Banking Committee trade package I believe we should act to address the persistent problem of the inflated value of the dollar. I urge this subcommittee to move forward with legislation to address exchange rates so that any further action taken by the House this year on trade addresses that critical aspect of our trade picture as well.

99TH CONGRESS
1ST SESSION

H. R. 1857

To amend the Export-Import Bank Act of 1945 to provide competitive export financing.

IN THE HOUSE OF REPRESENTATIVES

APRIL 1, 1985

Mr. LUNDINE (for himself and Mr. BONIOR of Michigan) introduced the following bill; which was referred to the Committee on Banking, Finance and Urban Affairs

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A BILL

To amend the Export-Import Bank Act of 1945 to provide competitive export financing.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

SHORT TITLE

SECTION 1. This Act may be cited as the "Export Promotion and Fair Credit Act of 1985".

FINDINGS

SEC. 2. The Congress hereby finds that—

(1) the trade deficit of the United States could exceed $130,000,000,000 in 1985;

(2) more aggressive United States exporting is critical to erasing the current imbalance between im-

ports and exports and to future economic prosperity since the export of goods and services accounts for over 10 percent of gross national product and each $1,000,000,000 in exports represents 25,000 jobs;

(3) in an increasingly competitive world, a fully competitive Export-Import Bank of the United States is needed as foreign countries are, to an increasing degree, relying on subsidization of their exports, including mixing foreign aid and commercial credits to obtain artificially low interest rates;

(4) international negotiations to eliminate the use of mixed or tied aid credits have not succeeded and, until an agreement eliminating their use is concluded, the United States must take action to put American exporters on a level playing field with their international competitors by matching foreign offers of mixed credits;

(5) the number of mixed or tied aid credits involving both foreign aid and commercial credits offered by foreign governments in 1983 increased by 38 percent from 1982, with their value exceeding $3,200,000,000; and

(6) the current capacity to counter foreign offerings of mixed or tied aid credits is inadequate to meet the increasing use by our foreign trading partners.

55-034 O - 86 - 2

COUNTERING MIXED AND TIED AID CREDITS

SEC. 3. The Export-Import Bank Act of 1945 (12 U.S.C. 635 et seq.) is amended by adding at the end thereof the following new sections:

"FUND FOR COUNTERING ABUSIVE MIXED AND TIED AID CREDITS

"SEC. 15. (a)(1) There is hereby established a fund to be known as the 'Fund for Countering Abusive Mixed and Tied Aid Credits' (hereinafter in this section referred to as the 'Fund').

"(2) The Fund shall be administered by the Board of Directors.

"(b)(1) It is the purpose of the Fund to provide the Bank a source of funds to support offers of mixed credits in order to discourage or, failing that, to counter offers of abusive mixed credits.

"(2) In order to support a sizable capability to challenge foreign abuses of mixed credit offers, the Bank shall use the Fund exclusively to finance the difference between the amount by which the rate of interest that the Bank considers necessary to discourage or successfully counter an abusive mixed credit offer supported by a foreign government, exceeds the greater of—

"(A) the rate of interest the Bank would normally charge on a loan, consistent with the Gentleman's

Agreement of the Organization for Economic Cooperation and Development; or

"(B) the rate of interest which any private financial institution in the United States is prepared to offer on such loan.

"(c) Any country which is eligible for either development assistance or economic support funds shall be eligible for mixed credit offers financed under this section.

"(d) It shall be the practice of the Bank to aggressively use the Fund by seeking out, with the assistance of the United States Government and representatives of the private sector, opportunities to discourage the use of abusive mixed credit offers supported by a foreign government and to effectively counter any such offer which the Bank cannot discourage.

"(e) The term 'abusive mixed credit' means credit—

"(1) which is tied to the purchase of exports from the country whose government is granting such credit; and

"(2) which has a grant element, as defined by the Development Assistance Committee of the Organization for Economic Cooperation and Development, sufficiently concessional to distort what would otherwise be a normal commercial transaction.

"(f) There are authorized to be appropriated $250,000,000 for fiscal year 1985 for purposes of carrying out the provisions of this section. Such amount shall remain available until expended.

"COUNTERING MIXED CREDITS

"SEC. 16. (a) In order to carry out the provisions of section 644 of the Trade and Development Enhancement Act of 1983, not less than $1,000,000,000 of the Bank's direct lending authority for fiscal year 1985 shall be reserved for establishing a mixed credit program.

"(b) Such mixed credit program—

"(1) shall be used by the Bank to discourage or counter abusive mixed credit offers;

"(2) shall be conducted in association with the Fund for Countering Abusive Mixed and Tied Aid Credits; and

"(3) shall, to the extent possible, give priority to the needs of small business concerns.

"(c) The amount of mixed credit support given to small business concerns under subsection (b)(3) shall count towards the amounts specified in subsection (a) and in section 2(b)(1)(E)(v)(III) of this Act.

"(d) For purposes of this section, the term 'abusive mixed credit' has the meaning given such term in section 15(e) of this Act.

"OFFICE OF COMPETITIVE EXPORT FINANCING

"SEC. 17. There is hereby established in the Bank an Office of Competitive Export Financing which shall advise the Chairman and the Board of Directors regarding—

"(1) current developments in the official export financing of major United States trade competitors, with special emphasis on mixed credit and other similar financing practices, techniques, and policies;

"(2) innovations and improvements needed in the policies and practices of the Bank in order to discourage or counter comparable practices used by other countries; and

"(3) policies and procedures the Bank should follow in order to become an effective originator of loan offers and to improve the scope and effectiveness of the Bank's role in discouraging or countering such practices.".

TERMINATION

SEC. 4. The provisions of and amendments made by this Act and the provisions of the Trade and Development Enhancement Act of 1983 shall terminate upon certification by the Secretary of the Treasury to the Congress that—

(1) the United States has reached agreement with other member countries of the Organization for Economic Cooperation and Development which ends abuse

of mixed credits in pursuit of national commercial benefit; and

(2) other governments of member countries of the Organization for Economic Cooperation and Development are honoring the terms of such agreement.

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Chairman NEAL. I thank our distinguished colleague who has worked in this area diligently for many years.

We would like to hear from Mrs. Johnson at this time.

STATEMENT OF HON. NANCY L. JOHNSON, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF CONNECTICUT

Mrs. JOHNSON. Thank you very much, Mr. Chairman.

I commend you for holding these hearings and I consider myself privileged to be at the table here with two Members of Congress who have shown so much leadership in this area and in other areas and I commend you, Mr. Chairman, for your leadership in assuring the critical role of Eximbank and protecting American jobs.

I also want to praise Representative Don Bonker who will be joining you next week for his commitment to this issue and his leadership in finding the means to resolve it.

The use of export credit subsidies is widespread and increasing in both number of countries offering them and in their depth. This has cost and continues to imperil U.S. jobs, despite our best efforts at negotiating an end to such practices.

I heartily welcome the administration's high-level recognition of the problem and their proposed solution, which I believe is largely consistent with the goal of my legislation. Together we must provide the resources and the commitment necessary to combat unfair predatory financing practices and bring recalcitrant nations to the negotiating table.

Neither one without the other will work. Dollars without commitment, commitment without dollars, will not do. We know that because we have had the one without the other and now for the future we must accomplish both.

Mr. Chairman, I would like to have my remarks entered in their entirety in the record, but recognizing the importance of the dialog that is to follow and the good introduction that you gave and the information that my colleagues have already given as to the seriousness of the problem, I am going to skip four or five pages of my testimony and get to what I consider to be the heart of the matter.

Chairman NEAL. Without objection, we will put the entire statement in the record.

Mrs. JOHNSON. Thank you very much.

You may recall I did introduce H.R. 5985 in the 98th Congress and last month introduced H.R. 3296, both of which are the kind of bills that we are talking about today and I want to address now the specifics of the difference between H.R. 3296 and the proposal offered by the administration because I think that the differences between the bills embody the issues that we must confront in the next few weeks.

I am concerned that the administration proposes repealing existing law adopted by the Congress in 1983 creating mixed credits programs, both in Exim and in AID.

I appreciate the desire of the Secretary of the Treasury to have a hand in a program that the administration has recently adopted as the centerpiece of a more aggressive trade policy. However, that could be accomplished by designating him chairman of the coordinating board which would serve to strengthen existing mechanisms and AID and Eximbank and yet enable us to take advantage of the experience that we have gained to this point under current law.

The Treasury's approach of targeting versus my approach of matching raises serious questions about the impact and fairness of the proposed program. Will such an avowedly limited program that in law sunsets in 1987—by the time we get it in place, it is going to be 1986—would that kind of program appear to be a threat to our competitors? What criteria will Treasury employ in a targeted approach? Why exclude AID and perpetuate a belief that helping LDC's and America's economic interests are unrelated?

I urge you, gentlemen of this subcommittee, to bring this issue forward. We provide more aid in this world than any other nation and if there is a powerplant to be built, what is wrong with recognizing that our aid to that nation and our economic interest as a nation may not have some connection?

We lost a powerplant in Egypt because we were blind to that relationship. They got the powerplant and Italian aid tied to it and they got our aid for free. We lost the jobs. We lost the deal, but we gave the money. We are too mature a nation not to be able to understand that all aid money should not be tied to all economic interests, but there is nothing wrong with recognizing the relationship between some aid dollars and our economic future.

My proposal takes a broader approach. It gives Exim and AID and resources to match qualifying deals and calls for regular reports to insure a responsive and effective program.

In addition, my bill complements the actions taken by the House in the foreign aid bill only this year providing $50 million in economic support funds through AID to combat mixed credits.

We need that money to move. We need to get started immediately. We should continue to back current law and the aggressive approaches and put behind it the muscle that we know is needed.

It appears to me an important difference between the Treasury's bill and mine is that the Treasury seeks to sting France dramatically to reach a negotiated agreement. I believe that only a broad commitment and an effective mechanism in law, only a sound program that France and all nations that use mixed credits meet at every turn of the road will enable the great United States to offset unfair foreign subsidies wherever they may occur to level the playing field in this one high-stakes area that not only involves billion-dollar deals, but decades of follow-on business.

To achieve our goals, successful negotiations banning Government financial subsidies—which we all agree is the goal—we must have a strong law in word and a strong law in mechanism.

I am posing a more aggressive mandate and funding it is a good start, but the mechanism is critical as we all see so clearly now with the 201 and 301 processes.

If the process isn't strong, the wording can be there but the program won't succeed. Therefore, a major difference between my bill and the administration's is the 10-day preliminary commitment requirement.

I understand there is objection to this requirement, but in the real world out there, timeliness is everything.

Great financial backing is of no value after the deal has been closed with the competitor. Remember, the EEC is able to give their applicants a commitment almost immediately; 10 days is their max, not their minimum. Surely the defender of the free

world has the smarts to act within 10 days. It is of little value to be strong militarily and weak economically.

So I urge you in the strongest terms possible to use current law and experience.

I urge matching, not targeting. I urge confronting the need to change AID's philosophy. I urge a program that is permanent until agreement is reached. I urge a program that reports to Congress that is accountable. I urge a timely, tough program with a 10-day requirement.

So I urge, in the strongest terms possible, don't adopt display legislation crafted to appear aggressive. Adopt the real thing. Do it and negotiations will suddenly move rapidly. History, experience, all evidence supports that conclusion, but a false threat will erode even our current position that has yielded so little.

I know these are strong words, but these are tough times; tough for our exporters, tough for American workers, tough for us as a nation, at a bargaining table at which we have failed to break the polite iron fist of our trading partners. This bill has to have the smell, it has to have the feel, it has to have the bucks, and it has to have the structure of a policy that says, "We mean business."

Thank you very much for enabling me to participate with you today and I look forward to working with you in the weeks ahead.

[The prepared statement of Congresswoman Johnson and the text of H.R. 3296 follow:]

PREPARED STATEMENT

OF

REP. NANCY L. JOHNSON (CT)

BEFORE THE

SUBCOMMITTEE ON INTERNATIONAL FINANCE, TRADE AND MONETARY POLICY

OF THE

HOUSE COMMITTEE ON BANKING, FINANCE AND URBAN AFFAIRS

OCTOBER 16, 1985

SUBJECT: REVIEW OF LEGISLATION TO COUNTER PREDATORY EXPORT FINANCING

THANK YOU, MR. CHAIRMAN.

FIRST, I WANT TO COMMEND YOU, CHAIRMAN NEAL, FOR HOLDING THIS HEARING ON TIED AID CREDIT ABUSE AND FOR YOUR LEADERSHIP IN PRESERVING THE CRITICAL ROLE OF EXIMBANK IN PROTECTING AMERICAN JOBS.

I ALSO WANT TO PRAISE REPRESENTATIVE WYLIE AND OTHER MEMBERS OF THE COMMITTEE FOR INTRODUCING THE ADMINISTRATION'S WAR CHEST PROPOSAL AND ENSURING TIMELY CONSIDERATION OF THIS EXTREMELY IMPORTANT INITIATIVE.

THE USE OF EXPORT CREDIT SUBSIDIES IS WIDESPREAD AND INCREASING IN BOTH NUMBER OF COUNTRIES OFFERING THEM AND IN THEIR DEPTH. THIS HAS COST AND CONTINUES TO IMPERIL U.S. JOBS, DESPITE OUR BEST EFFORTS AT NEGOTIATING AN END TO SUCH PRACTICES.

I HEARTILY WELCOME THE ADMINISTRATION'S HIGH-LEVEL RECOGNITION OF THE PROBLEM AND THEIR PROPOSED SOLUTION, WHICH I BELIEVE IS LARGELY CONSISTENT WITH THE GOAL OF MY LEGISLATION, AND I AM PLEASED TO HAVE THIS OPPORTUNITY TO PARTICIPATE IN TODAY'S HEARING. THROUGH OUR JOINT EFFORTS, WE MUST PROVIDE THE RESOURCES AND THE COMMITMENT NECESSARY TO COMBAT UNFAIR PREDATORY FINANCING PRACTICES AND BRING RECALCITRANT NATIONS TO THE NEGOTIATING TABLE.

I WOULD LIKE TO SUMMARIZE MY COMMENTS AT THIS TIME, AND ASK THAT MY FULL STATEMENT BE INCLUDED IN THE COMMITTEE RECORD.

MR. CHAIRMAN, AS YOU ARE AWARE I HAVE BEEN CONCERNED ABOUT JOBS AND AMERICA'S COMPETITIVENESS, AND PARTICULARLY THE EXPORT FINANCING ISSUE, FOR SOME TIME. AFTER BEING PRESENTED WITH NUMEROUS VIVID EXAMPLES OF OPPORTUNITIES LOST BY MEMBERS OF THE BUSINESS COMMUNITY, AFTER STUDYING THE YEARS OF FOLLOW ON BUSINESS LOST WITH PROJECT AFTER PROJECT, I BECAME CONVINCED THAT OUR GOVERNMENT MUST MOBILIZE THE RESOURCES AND DETERMINATION TO FIGHT FIRE WITH FIRE.

I INTRODUCED H.R. 5985 IN THE 98TH CONGRESS TO GIVE TEETH TO THE DEFENSIVE MIXED CREDITS PROGRAM ESTABLISHED BY THE CONGRESS IN 1983. MY BILL PROVIDED $500 MILLION FOR EXIMBANK TO MATCH FOREIGN MIXED CREDITS UNTIL WE COULD NEGOTIATE AN END TO THEIR USE.

I BELIEVED THEN AS I DO NOW THAT OUR EXPORTERS SHOULD BE AFFORDED THE SAME OPPORTUNITIES AS EXPORTERS IN FOREIGN NATIONS, WHETHER IT BE A MARKET ACCESS OR AN UNFAIR SUBSIDY ISSUE, AND THAT WE NEED TO BE MORE FORCEFUL WITH OUR TRADING PARTNERS IN LEVERAGING FAIR TRADE AND ELIMIATING DISTORTING PRACTICES IN AN OPEN TRADING SYSTEM. HOW ELSE BUT THROUGH AGGRESSIVE RECIPROCAL ACTION TO DEPRIVE OTHERS OF THEIR UNFAIR ADVANTAGE WILL WE CONVINCE THEM TO CEASE SUCH ACTIONS?

PRIOR TO RECEIVING THE ADMINISTRATION'S PROPOSAL TO ESTABLISH A WAR CHEST LAST MONTH, I REINTRODUCED MY LEGISLATION TO COUNTER UNFAIR FOREIGN MIXED CREDITS. MY NEW BILL, H.R. 3296, PROVIDES $250 MILLION EACH FOR EXIM AND THE AGENCY FOR INTERNATIONAL DEVELOPMENT (AID), WHICH WERE DIRECTED UNDER THE TRADE DEVELOPMENT AND ENHANCEMENT ACT OF 1983 TO ESTABLISH JOINTLY A DEFENSIVE MIXED CREDITS PROGRAM.

AS I INDICATED TO OUR COLLEAGUES ON THE FOREIGN AFFAIRS TRADE SUBCOMMITTEE WHEN I TESTIFIED ON THIS SUBJECT TWO WEEKS AGO, I BELIEVE IT IS IMPERATIVE THAT WE REINFORCE OUR COMMITMENT TO PROTECT AMERICAN INTERESTS UNTIL NEGOTIATIONS PRODUCE A MORE RATIONAL SOLUTION.

THE MIXED CREDITS PROBLEM

MIXED CREDITS HAVE BEEN CALLED "THE MOST SIGNIFICANT REMAINING LOOPHOLE" IN OUR NEGOTIATED EXPORT CREDIT GUIDELINES WITH THE OECD.

MOST INDUSTRIAL COUNTRIES ARE PREPARED TO PROTECT THEIR TRADE INTERESTS BY MATCHING MIXED CREDIT OFFERS; THE U.S. HAS BEEN RELUCTANT TO COUNTERATTACK. AN ATTRACTIVE FINANCING PACKAGE SWEETENED WITH MIXED CREDITS, HOWEVER, CAN OVERRIDE SUPERIOR U.S. PRICE, QUALITY, TECHNOLOGY, SERVICE, AND EXPERIENCE.

OUR COMPETITORS ARE VIGOROUSLY SUPPORTING FROM 20 TO AS MUCH AS 40 PERCENT OF THEIR EXPORTS IN THE SCRAMBLE FOR CONTRACTS WHILE WE SUPPORT LESS THAN THREE PERCENT.

IT IS ESTIMATED THAT AMERICAN EXPORTERS ARE LOSING BETWEEN $3.5 AND 7 BILLION IN EXPORT SALES DUE TO FOREIGN MIXED CREDITS ACTIVITY, AND WE INCREASINGLY SEE MIXED CREDITS BEING TARGETED TO CRITICAL SECTORS LIKE MACHINE TOOLS, TELECOMMUNICATIONS, TRANSPORTATION AND POWER PROJECTS.

IN ADDITION TO AN INCREASE IN THE AMOUNTS AND NUMBERS OF MIXED CREDITS OFFERED, THE NUMBER OF OFFERING COUNTRIES HAS ALSO RISEN. SWEDEN, MEXICO AND SOUTH KOREA ARE BEGINNING TO USE MIXED CREDIT FINANCING TO WIN PROJECTS FOR THEIR EXPORTERS.

FRANCE CONTINUES TO BE THE MAJOR CULPRIT, ACCOUNTING FOR NEARLY 60 PERCENT OF ALL REPORTED MIXED CREDIT OFFERS. MIXED CREDITS HAVE BEEN A MATTER OF ECONOMIC POLICY IN THAT COUNTRY FOR MORE THAN 20 YEARS, AND THE NUMBER OF FRENCH OFFERS HAS TRIPLED SINCE 1980.

BRITAIN OVER THE PAST FIVE YEARS HAS STEADILY INCREASED HER FUND EARMARKED FOR MIXED CREDIT ACTIVITY FROM AN INITIAL $400 MILLION, I BELIEVE, TO OVER $1 BILLION LAST YEAR.

CANADA BOASTED A $900 MILLION MIXED CREDIT FUND IN 1981, AND I UNDERSTAND THEY ARE NOW AT ABOUT $1.3 BILLION, BUT I KNOW THE ADMINISTRATION OFFICIALS WILL PRESENT MORE ACCURATE AND UP-TO-DATE FIGURES IN THEIR TESTIMONY.

JAPAN USES A VARIETY OF METHODS, INCLUDING MIXED CREDITS, TO ASSIST ITS EXPORTERS, AND AS MUCH AS HALF OF ALL HER EXPORTS RECEIVE SOME FORM OF OFFICIAL SUPPORT. THE BOSPORUS BRIDGE CASE IN TURKEY IS A GOOD EXAMPLE OF HOW TENACIOUS THE JAPANESE CAN BE WHEN THEY WANT A CONTRACT.

THE IMPORTANCE OF COMPETITIVE FINANCING TO OUR TRADE PICTURE HAS BEEN CITED BY THE PRESIDENT'S COMMISSION ON COMPETITIVENESS AND ALL OTHER REPORTS ADDRESSING THAT PROBLEM.

THE ORGANIZATION FOR ECONOMIC COOPERATION AND DEVELOPMENT (OECD) ESTIMATED IN 1980 THAT EXPORT SUBSIDIES AMONG MEMBER COUNTRIES REACHED $5.5 BILLION, INCLUDING $2.6 BILLION IN MIXED CREDIT ACTIVITY. THE OECD ESTIMATES THAT EXPORT SUBSIDIES WILL TOP THE $6 BILLION MARK THIS YEAR.

THE PRESIDENT'S TASK FORCE ON INTERNATIONAL PRIVATE ENTERPRISE ESTIMATED THAT THE DOLLAR VALUE OF MIXED CREDIT OFFERS INCREASED FROM $2 BILLION IN 1982 TO $3.5 BILLION IN 1983.

THE COALITION FOR EMPLOYMENT THROUGH EXPORTS (CEE), A BUSINESS, LABOR, AND GOVERNMENT GROUP, ESTIMATED THAT ITS MEMBERSHIP, WHICH IS ONLY A PORTION OF THE BUSINESS COMMUNITY, LOST $7 BILLION IN SALES DUE TO MIXED CREDITS IN A 9-MONTH PERIOD DURING 1983 AND 1984.

H.R. 3296 HIGHLIGHTS

I HAVE INTRODUCED LEGISLATION AGAIN THIS YEAR TO PROVIDE THE SUPPORT OUR EXPORTERS NEED TO COUNTER THE UNFAIR USE OF MIXED CREDIT FINANCING. MY LEGISLATION:

--REAFFIRMS U.S. TRADE POLICY OBJECTIVE OF SUCCESSFULLY NEGOTIATING AN END TO THE USE OF MIXED CREDITS TO SUBSIDIZE EXPORTS

--AUTHORIZES $500 MILLION FOR THE MIXED CREDITS PROGRAM, $250 EACH FOR EXIMBANK AND AID

--ESTABLISHES A 5-MEMBER MIXED CREDITS COORDINATING BOARD, COMPRISED OF OFFICIALS FROM EXIM, AID, TREASURY, COMMERCE, AND THE USTR

--ELIMINATES REQUIREMENT FOR UNANAMOUS APPROVAL OF THE NATIONAL ADVISORY COUNCIL (NAC)

--IMPOSES A 10-DAY DEADLINE FOR RESPONDING WITH A PRELIMINARY COMMITMENT TO MATCH THE FOREIGN MIXED CREDIT OFFER

--REQUIRES A QUARTERLY REPORT TO CONGRESS ON FOREIGN MIXED CREDITS OFFERS, U.S. RESPONSES, AND THE PROGRESS OF NEGOTIATIONS

--PROVIDES FOR TERMINATION OF MIXED CREDITS PROGRAM WHEN AN END TO SUCH PRACTICES IS NEGOTIATED

MY LEGISLATION PROVIDES THAT THE PROGRAM WILL BE USED SOLELY FOR DEFENSIVE PURPOSES TO MATCH MIXED CREDIT OFFERS BY FOREIGN GOVERNMENTS, BUT I AM NOT OPPOSED PER SE TO MORE AGGRESSIVE TACTICS TO ACHIEVE OUR NEGOTIATING GOALS. I DO HAVE CONCERNS, HOWEVER, WITH BOTH THE STRATEGY AND THE LOGISTICS OF THE TREASURY PROPOSAL.

FOR CLARITY'S SAKE, I'VE PREPARED A QUICK SIDE-BY-SIDE COMPARISON OF MY BILL AND THE TREASURY PLAN:

COMPARISON OF TREASURY AND JOHNSON BILLS ON MIXED CREDITS WAR CHEST

ISSUE	TREASURY	JOHNSON
administration	Treasury	Eximbank/A.I.D.
coordination/ advice	National Advisory Council (NAC)	Coordinating Board: (Treasury, Eximbank, AID, Commerce, USTR)
funding level	$300 million	$250/$250 million
funding mechanism	new money (86)	new money (87)
funding duration	sunset (87)	rollover/sunset when agreement negotiated
1983 law	wipes out	utilizes
application	targeted	match across board
strategy	offensive	defensive
oversight	none	report to Congress
response time	no deadline	10-day match deadline

I AM CONCERNED THAT THE ADMINISTRATION PROPOSES REPEALING EXISTING LAW ADOPTED BY THE CONGRESS IN 1983 CREATING A MIXED CREDITS PROGRAM BOTH IN EXIM AND AID. I CAN APPRECIATE THE DESIRE OF THE SECRETARY OF THE TREASURY TO HAVE A HAND IN A PROGRAM THAT THE ADMINISTRATION HAS RECENTLY ADOPTED AS THE CENTERPIECE OF A MORE AGGRESSIVE TRADE POLICY. HOWEVER, THAT COULD BE ACCOMPLISHED BY DESIGNATING HIM CHAIRMAN OF THE COORDINATING BOARD, WHICH WOULD SERVE TO STRENGTHEN EXISTING MECHANISMS IN AID AND EXIMBANK.

THE TREASURY'S APPROACH OF TARGETING VS. MY APPROACH OF MATCHING RAISES SERIOUS QUESTIONS ABOUT THE IMPACT AND FAIRNESS OF THE PROPOSED PROGRAM. WILL SUCH AN AVOWEDLY LIMITED PROGRAM, WHICH SUNSETS IN 1987, APPEAR TO BE A THREAT TO OUR COMPETITORS? WHAT CRITERIA WILL TREASURY EMPLOY? WHY EXCLUDE AID AND PERPETUATE A BELIEF THAT HELPING LDC'S AND AMERICA'S INTERESTS ARE UNRELATED?

MY PROPOSAL TAKES A BROADER APPROACH. IT GIVES EXIM AND AID THE RESOURCES TO MATCH QUALIFYING DEALS AND CALLS FOR REGULAR REPORTS TO ENSURE A RESPONSIVE AND EFFECTIVE PROGRAM. IN ADDITION, MY BILL IS COMPLIMENTS THE ACTIONS TAKEN B THE HOUSE IN THE FOREIGN AID BILL TO PROVIDE $50 MILLION IN ECONOMIC SUPPORT FUNDS (ESF) THROUGH AID TO COMBAT MIXED CREDITS.

IT APPEARS TO ME THAT AN IMPORTANT DIFFERENCE BETWEEN THE TWO BILLS IS THAT THE TREASURY SEEKS TO STING FRANCE DRAMATICALLY TO REACH A NEGOTIATED AGREEMENT. I BELIEVE THAT ONLY A BROAD COMMITMENT, A SOUND PROGRAM THAT FRANCE AND ALL NATIONS THAT USE MIXED CREDITS MEET AT EVERY TURN THAT WILL ENABLE THE GREAT UNITED STATES TO OFFSET UNFAIR FOREIGN SUBSIDIES WHEREVER THEY MAY OCCUR AND TO LEVEL THE PLAYING FIELD IN THIS ONE HIGH STAKES AREA THAT NOT ONLY INVOLVES BILLION DOLLAR DEALS BUT DECADES OF FOLLOW ON BUSINESS.

TO ACHIEVE OUR GOALS, SUCCESSFUL NEGOTIATIONS BANNING GOVERNMENT FINANCIAL SUBSIDIES, WE MUST HAVE A STRONG LAW IN WORD AND MECHANISM. IMPOSING A MORE AGGRESSIVE MANDATE AND FUNDING IT IS A GOOD START, BUT THE MECHANISM IS CRITICAL, AS WE ALL SEE SO CLEARLY NOW WITH THE 201 AND 301 PROCESSES. THEREFORE, A MAJOR DIFFERENCE BETWEEN MY BILL AND THE ADMINISTRATION'S IS THE 10-DAY PRELIMINARY COMMITMENT REQUIREMENT.

I UNDERSTAND THERE IS OBJECTION TO THIS REQUIREMENT, BUT IN THE REAL WORLD OUT THERE TIMELINESS IS ALL. GREAT FINANCIAL BACKING IS OF NO VALUE AFTER THE DEAL IS CLOSED WITH A COMPETITOR. REMEMBER, THE EEC IS ABLE TO GIVE THEIR APPLICANT A COMMITMENT ALMOST IMMEDIATELY. SURELY THE DEFENDER OF THE FREE WORLD HAS THE SMARTS TO ACT WITHIN 10 DAYS. IT'S OF LITTLE VALUE TO BE STRONG MILITARILY IF YOU ARE WEAK ECONOMICALLY.

SO I URGE YOU IN THE STRONGEST TERMS POSSIBLE: DON'T ADOPT DISPLAY LEGISLATION CRAFTED TO APPEAR AGGRESSIVE. ADOPT THE REAL THING. DO IT, AND NEGOTIATIONS WILL SUDDENLY MOVE RAPIDLY. HISTORY, EXPERIENCE, ALL EVIDENCE SUPPORTS THAT CONCLUSION. BUT A FALSE THREAT MAY ERODE EVEN OUR CURRENT POSITION.

I KNOW THESE ARE STRONG WORDS, BUT THESE ARE TOUGH TIMES. TOUGH FOR OUR EXPORTERS, TOUGH FOR AMERICAN WORKERS, TOUGH FOR US AS A NATION AT A BARGAINING TABLE AT WHICH WE HAVE FAILED TO BREAK THE POLITE IRON FIST OF OUR TRADING PARTNERS. THIS BILL HAS TO HAVE THE SMELL, FEEL, STRUCTURE AND FUNDING OF A POLICY THAT SAYS: "WE MEAN BUSINESS".

THANK YOU VERY MUCH FOR INVITING ME TO PARTICIPATE TODAY, AND I HOPE WE CAN WORK TOGETHER TO PASS LEGISLATION BEFORE THE SESSION ENDS. AT THIS TIME, I'D BE HAPPY TO TRY AND ANSWER ANY QUESTIONS YOU MAY HAVE.

99TH CONGRESS
1ST SESSION

H. R. 3296

To amend the Trade and Development Enhancement Act of 1983 to provide for better coordination between the tied aid credit programs established in the Export-Import Bank and the Agency for International Development as a defense against the abusive use of mixed credits by foreign countries, to direct the Export-Import Bank to expand its efforts to promote small business exports, and for other purposes.

IN THE HOUSE OF REPRESENTATIVES

SEPTEMBER 12, 1985

Mrs. JOHNSON (for herself, Mr. BONKER, Mr. MCKINNEY, Mr. BEREUTER, Mr. RIDGE, Mr. ROWLAND of Connecticut, Mr. LEWIS of California, and Mr. GILMAN) introduced the following bill; which was referred jointly to the Committees on Banking, Finance and Urban Affairs and Foreign Affairs

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A BILL

To amend the Trade and Development Enhancement Act of 1983 to provide for better coordination between the tied aid credit programs established in the Export-Import Bank and the Agency for International Development as a defense against the abusive use of mixed credits by foreign countries, to direct the Export-Import Bank to expand its efforts to promote small business exports, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

SECTION 1. SHORT TITLE.

This Act may be cited as the "Competitive American Exports Act of 1985".

SEC. 2. CONGRESSIONAL FINDINGS; STATEMENT OF PURPOSE.

(a) CONGRESSIONAL FINDINGS.—The Congress hereby finds that—

(1) the practice of granting credits under foreign assistance programs on the condition that the proceeds granted be used to purchase exports from the country providing such assistance (commonly known as "tied aid credit") is frequently abused;

(2) the abuse of tied aid credits frequently occurs when tied aid credits are used by a foreign government primarily for promoting export sales by domestic industries rather than for providing foreign development aid for low income countries for whom private financing is unavailable and economic development is critical;

(3) tied aid credit abuse frequently occurs through the use of mixed credits which involve grants of credits by a foreign government in conjunction with financing available for export sales from private sources which has the effect of reducing the financing costs for such sales to the purchasers;

(4) the abuse of tied aid credits through the use of mixed credits is particularly injurious to United States exporters whose goods and services are highly com-

petitive in world markets but who lose sales due to the disadvantage they suffer in being unable to compete on financial terms with foreign competitors who can offer such government-subsidized financing;

(5) the incentive to abuse tied aid credits in general, and mixed credits in particular, decreases as the size of the government grant element increases in relation to the total cost of the goods or services being exported; and

(6) the United States—

(A) must continue to insist that participants in the Arrangement on Guidelines for Officially Supported Export Credits established through the Organization for Economic Cooperation and Development (hereinafter in this Act referred to as the "Arrangement") honor their pledge not to offer mixed credits which contain a grant element which is less than the minimum specified in the Arrangement,

(B) should continue to insist on negotiations to increase the minimum size of the grant element in order to reduce the incentive to abuse the mixed credits, and

(C) must take certain undesirable actions for the sole purpose of protecting its own exporters

from the predatory export financing practices of their competitors until such abuses can be resolved through the Arrangement.

(b) STATEMENT OF PURPOSE.—It is the purpose of this Act—

(1) to reinforce the credibility and negotiating effectiveness of the United States in the negotiations described in section 643 of the Trade and Development Enhancement Act of 1983; and

(2) to take defensive action against tied aid credit abuse by providing the means for making financing available on an expedited basis to United States exporters on terms which are competitive with the advantageous terms offered by foreign competitors through the use of mixed credits offered by the countries in which such competitors are located—

(A) primarily in order to establish an incentive to reduce the use of mixed credits by such countries whenever possible, and

(B) secondarily in order to allow the United States to match the use of such credits by such countries when such reduction in use is not possible.

SEC. 3. AMENDMENTS TO THE TRADE AND DEVELOPMENT ENHANCEMENT ACT OF 1983.

(a) MIXED CREDIT COORDINATION BOARD ESTABLISHED.—Section 646 of the Trade and Development Enhancement Act of 1983 (12 U.S.C. 635s) is amended to read as follows:

"SEC. 646. MIXED CREDIT COORDINATION BOARD.

"(a) MIXED CREDIT COORDINATION BOARD.—

"(1) ESTABLISHMENT.—There is hereby established in the executive branch the Mixed Credit Coordination Board which shall consist of—

"(A) the Vice Chairman of the Export-Import Bank of the United States;

"(B) the Assistant Administrator of the Agency for International Development;

"(C) the Assistant United States Trade Representative;

"(D) the Assistant Secretary of the Treasury referred to on the date of the enactment of this Act as the 'Assistant Secretary of the Treasury for International Trade and Investment Policy' (or the Assistant Secretary of the Treasury who succeeds to the functions of such Assistant Secretary); and

"(E) the Assistant Secretary of Commerce referred to on the date of the enactment of this

Act as the 'Assistant Secretary of Commerce for Trade Development' (or the Assistant Secretary of Commerce who succeeds to the functions of such Assistant Secretary).

"(2) DUTIES.—It shall be the duty of the Mixed Credit Coordination Board to—

"(A) establish policy and procedure guidelines for the development, implementation, and coordination of the mixed credit programs of the Export-Import Bank of the United States and the Agency for International Development pursuant to sections 644 and 645, respectively;

"(B) oversee the operation of such programs;

"(C) recommend improvements in the manner in which each such agency carries out its programs under section 644 or 645, as the case may be;

"(D) develop a system for monitoring mixed credit use by foreign governments which incorporates both public and private sources of information;

"(E) encourage private financial institutions to participate in the mixed credit program financing; and

"(F) solicit the advice of, and consider any recommendation of, the National Advisory Council on International Monetary and Financial Policies.

"(3) REPORT.—The Mixed Credit Coordination Board shall transmit, on a quarterly basis, a report to the President and to the Congress. Such report shall include information on—

"(A) any progress which has been made in negotiations on agreements within the Organization for Economic Cooperation and Development to limit the use of Government supported mixed credits;

"(B) the extent to which mixed credits are being used at the time of such report by major trading countries within such Organization and the terms of such credits and the market sectors with respect to which such credits are being used; and

"(C) the extent to which the mixed credits programs of the United States have been effective—

"(i) in helping United States export contractors become competitive with contractors

from countries in which mixed credits are offered, and

"(ii) in discouraging the use of mixed credits by such countries.

The Export-Import Bank of the United States shall provide such administrative support services as the Board determines to be necessary for the preparation of the report.

"(b) POLICY AND PROCEDURE GUIDELINES.—In connection with the establishment of policy and procedure guidelines under subsection (a)(2)(A), the Mixed Credit Coordination Board shall—

"(1) recommend procedures under which prompt decisions could be assured on applications for mixed credits to the Export-Import Bank of the United States and the Agency for International Development;

"(2) recommend procedures for making standby and preliminary commitments for mixed credits available from the Export-Import Bank of the United States or the Agency for International Development within 10 days of an application therefor to such Bank or Agency;

"(3) recommend procedures which would assure that an application for a mixed credit from such Bank

or Agency can be processed and the grant made available within 30 days of the date of application;

"(4) establish a policy with regard to the degree to which proof is required that—

"(A) a foreign offer of a mixed credit has been made, or

"(B) on the basis of past practice or a course of dealing, a foreign offer of a mixed credit can reasonably be expected,

in order to receive a mixed credit under this part and the time at which and the manner in which evidence of such offer shall be submitted to such Bank or Agency; and

"(5) take such steps as may be necessary to publicize—

"(A) among United States exporters, the availability of grants under the mixed credit programs of the Export-Import Bank of the United States and the Agency for International Development, the terms and conditions under which such grants are available, and any regular or special reports prepared by such agencies with respect to such programs, and

"(B) in international circles, the availability of standby and preliminary mixed credit commit-

ments by such Bank and Agency as a defensive response to the use of mixed credit offers by foreign governments.".

(b) AUTHORIZATION OF APPROPRIATIONS FOR THE EXPORT-IMPORT BANK OF THE UNITED STATES.—Subsection (c) of section 644 of such Act is amended to read as follows:

"(c) There is hereby authorized to be appropriated to the Export-Import Bank of the United States for the fiscal year beginning on October 1, 1986, $250,000,000 to carry out the tied aid credit program described in this section. Amounts appropriated under this subsection shall remain available until expended.".

(c) AUTHORIZATION OF APPROPRIATIONS FOR THE AGENCY FOR INTERNATIONAL DEVELOPMENT.—Subsection (d) of section 645 of such Act is amended to read as follows:

"(d) There is hereby authorized to be appropriated to the Agency for International Development for the fiscal year beginning on October 1, 1986, $250,000,000 to carry out the tied aid credit program described in this section. Amounts appropriated under this subsection shall remain available until expended.".

SEC. 4. EXPORT-IMPORT BANK ACT AMENDMENTS RELATING TO SMALL BUSINESSES.

(a) INCREASE IN AVAILABILITY OF FUNDS TO FINANCE EXPORTS BY SMALL BUSINESSES.—Subclause (III) of section 2(b)(1)(E)(v) of the Export-Import Bank Act of 1945 (12 U.S.C. 635(b)(1)(E)(v)(III)) is amended by striking out "10 per centum" and inserting in lieu thereof "12 percent".

(b) ADDITIONAL EFFORTS REQUIRED TO PROMOTE THE PARTICIPATION OF SMALL BUSINESSES IN INTERNATIONAL COMMERCE.—Subparagraph (E) of section 2(b)(1) of such Act is amended by adding at the end thereof the following new clause:

"(ix) The Bank shall promote the policy described in clause (i)(I) with respect to small businesses by—

"(I) providing information about the Bank's small business programs to any publisher of any publication which is distributed to small businesses, including any other Federal agency and any State or local government agency which publishes any such publication; and

"(II) initiating other activities which the Bank determines would pro-

vide more information about the Bank's small business programs to small businesses and commercial institutions which support small businesses.

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Chairman NEAL. Our thanks to you also, Mrs. Johnson.

Your statement was certainly well thought out and delivered and it is a big help to us.

It might be good to take a few moments to let our colleagues comment about the other statements. There are some strong differences of opinion among them. Would that be the wish of the subcommittee or would you like to start in with questions?

Mrs. JOHNSON. Mr. Chairman.

Chairman NEAL. Yes.

Mrs. JOHNSON. I don't have a complete comparison, but included in my testimony—for those that have it—is kind of a simplified chart of some of the differences at least between Treasury's proposal and mine that might be helpful.

Chairman NEAL. Mr. Wylie, I am just wondering if you might want to begin. Mrs. Johnson has made a couple of points concerning when the funding would begin, what would be the most effective approach, and whether it ought to be in Exim, AID, or strictly in Treasury. I certainly welcome any comment you have on that.

Mr. WYLIE. Thank you very much, Mr. Chairman. There are those who will follow who have more expertise in this area than I, and who will testify in support of the administration's position. But I was persuaded that we need a new discipline, a new approach in this matter of tied-aid legislation. As has been pointed out, we haven't been too successful in this area vis-a-vis the Eximbank and the present aid program.

The administration bill would provide for a rifle-shot approach which could be administered in a very timely fashion which could be administered on a case-by-case basis, it seems to me. I think that the Eximbank would have to identify areas where mixed credit could be made available. Mixed credit on the part of other nations with France, Italy, and some others, have been harmful to U.S. exporters, but as you mentioned in your statement, exporters, people who are in the business who know what they are doing in this field, like the administration approach because they think in that way that we can act more quickly and more aggressively to try to help them.

I think it comes down to the question of who will bestow the funds. As I mentioned earlier, I think the Secretary of the Treasury and President of the United States have asked for some help in this area and I think that it would be a good way for us to say that we are trying to help our exporters. It might even be an argument against trade protectionism which is legislation which is now going through Congress.

We saw what happened on the textile bill just last week. But as has been mentioned here, in the past, the United States has tried to counteract mixed credits through international negotiations, through Exim, through the trade program, and through rate agreements, and so forth. It hasn't worked very well. I think it is time, frankly, to take a new approach.

As I mentioned earlier, it would sunset. If it isn't working, we can try something else. Anyhow, the administration bill has a lot of appeal to me, and I am willing to support it actively.

Mr. LUNDINE. Mr. Chairman.

Chairman NEAL. Yes, Mr. Lundine.

Mr. LUNDINE. I commented in my testimony on the administration's bill. Let me simply say that I agree with the tone of what my colleague from Connecticut, Mrs. Johnson, has to say, and I agree almost completely with her approach. Let me say before emphasizing any differences, what should really be the message is that, finally, we are really all talking in the same direction and any little differences between the administration's approach, hers, and mine is a lot less important than that we put a few hundred million dollars out there and mean business.

This idea of negotiating through pleas and imploring our trading partners is never going to work. We have got to get down to business and that is what she said, and I think in a way that is what the administration is saying, and I really welcome that sincerely. Now let's talk about the differences. The difference between my opinion and Nancy's is essentially that I believe we have got to have both an offense and a defense. She believes it should remain defensive, the use of mixed credits, while the administration wants to basically take a complete offensive approach, as I understand it.

At least I think that is the way it would work out administered solely by Treasury. So there is that little, I think rather significant, strategic difference. But I think Nancy has got a great idea and if I had thought of it, I would have put it in my bill, to sunset the program as soon as you get effective international agreement to end the subsidy, but no sooner. I don't like the sunset in 1987. Those are real details, though, that the subcommittee and others can work out. I think the main thing to make philosophically a judgment on is, do you want a defensive program or do you want an offensive one or do you want a combination of both?

Chairman NEAL. Mrs. Johnson.

Mrs. JOHNSON. Mr. Chairman, I would like to comment that between my bill in the last Congress and my bill in this Congress, perhaps the most significant change is the section that deals with the 10-day commitment. That was not in my first bill. We tried to have a timely commitment but we weren't nearly so tough. We got tough when we began to learn how Europe does it and what exporters in Europe can count on in the way of a dialog with financing, and the more we looked into our mechanism here—and I hope this will be enlarged on by some of those who follow. I mean, that suggestion didn't come out of the air is really what I am saying to you.

It came from experienced people in America who are involved in export and in Europe who are involved in export, and that is a realistic mechanism that is attainable within 10 days and a firm commitment within 30. If your competitors can get that and you can't, you are out. So you might as well not have a program. So if we don't write a mechanism in this law, then we aren't going to have a program.

I am not wedded to the administrative form of my program. I am not in cement about any aspect of it but I do believe very, very strongly and I think our own national experience supports the conclusion that if we don't have a mechanism we are going to have a program and we are not going to be out there on the world market making a difference for American business and jobs.

Chairman NEAL. Thank you. Do other members of the panel have any other comments at this time?

Mr. WYLIE. Mr. Chairman, I would just say that I think Congressman Lundine and Congresswoman Johnson have both made good points. I said in my opening statement, this is not a partisan issue. I think for the first time here, we are seeing agreement that we need to do something to reach the same goal; that is, to help our exports vis-a-vis tied-aid credit.

I think that many minds and many heads working on this can come up with a piece of legislation which will be agreeable to all of us in Congress and to the administration. At least I hope so.

Chairman NEAL. Are there members of the subcommittee who would like to ask questions of our panelists?

Mr. LAFALCE. In the interest of time, Mr. Chairman, maybe we should go on to the next panel.

Chairman NEAL. That will be fine, if there are no questions or comments from subcommittee members.

Mr. WYLIE. Thank you.

Chairman NEAL. Let me thank our first very distinguished panel again and welcome our next panel.

I would like to welcome at this time the Honorable William Draper, Chairman of the Export-Import Bank, and Mr. Robert Cornell, Deputy Assistant Secretary of the Treasury for International Trade and Investment Policy. Gentlemen, thank you, and please proceed as you will. We would like in the interest of time for you to summarize your statements. Please feel free to put your entire statements in the record, which we will accept without objection at this time.

STATEMENT OF HON. WILLIAM H. DRAPER III, CHAIRMAN, EXPORT-IMPORT BANK OF THE UNITED STATES

Mr. DRAPER. Thank you very much, Mr. Chairman. I will do just that. I am pleased to testify in support of H.R. 3515, which contains the President's proposal for the establishment of a $300 million tied-aid credit fund. This $300 million in grant money, when combined with regular export credits or private sector financing, can support $1 billion in tied-aid credits, and form the basis for extending mixed-credit offers of $2 to $3 billion. It will be a potent negotiating tool in our efforts to stop certain countries from using aid money to buy export orders.

As you know, this administration steadfastly opposes the blending of aid funds—those set aside for humanitarian and developmental purposes—and export credit funds simply to lower the overall interest rate. The use of developmental funds to win commercial export orders is a distortion of both aid and trade, as has been already mentioned.

The French are dominant in the field of tied-aid credit and have been for many years. In 1980 the OECD reported mixed credit offers of around $2.1 billion. Of these France accounted for nearly $1.8 billion.

By 1984, the OECD was reporting mixed credit offers of nearly $6.5 billion. France continued to be the leading offender, with $1.7 billion.

But many other countries expanded their tied-aid credit programs to meet the French competition. For example, Italy jumped

their offers from $24 million in 1980 to $370 million last year. Belgium made no mixed credit offers either in 1980 or 1981. Last year they offered nearly $450 million. Frequently several countries make offers for the same project. For that reason and because some projects are cancelled or delayed, the OECD estimates the actual magnitude of mixed credit financing to be somewhat less than the offers, ranging around $2 billion in each of 1983 and 1984.

The question arises: Is the $300 million grant fund sufficient to allow the United States to match competitive offers of this magnitude? The answer is emphatically: Yes.

The $300 million being requested by the administration would be used only for the grant portion of a transaction. The balance of the financing needed would be provided by Eximbank under its regular programs and on regular terms and conditions, or by commercial sources.

Assuming a need for an average grant element of 40 percent in such transactions in order to provide a competitive concessionary offer, the 30 percent would be derived from the new $300 million fund on a grant basis with the remaining 70 percent coming from Eximbank's regular direct credit funds or from private market sources. Thus the total financing available to support U.S. exports with mixed credit offers would actually amount to $1 billion. To the extent that a smaller grant element could be used, the leverage provided by the $300 million fund could be increased.

Moreover, as you are aware, in international sales transactions many more bids are made by suppliers than are actually won by them. Thus, many of the financing offers by an official export credit agency will not be converted into final commitments. In fiscal year 1985, for example, Eximbank issued preliminary commitments in excess of $5 billion, of which probably $1 to $1.5 billion will eventually be converted into final commitments when the U.S. suppliers win the orders.

Thus, while the $300 million of grant funds would support $1 billion of mixed credit activity, the United States could make $2 to $3 billion of mixed credit offers. This program would have a major impact on those countries we are anxious to get back to the negotiating table.

Let me now talk a little about what we have been doing to counter foreign mixed credit competition, and what we intend to do until this $300 million funding is in place.

In late 1983, Congress directed both AID and Eximbank to establish mixed credit programs. Mixed credit means also mixed aid in our normal trade program. so the combination requires both of us, if you use that terminology. However, no special funds were provided for this purpose to either one of us. AID has been severely restricted in the number of countries in which it could participate.

Eximbank developed its own concessionary financing program to counter mixed credit offers other nations had put on the table. We actually did about 12 of these, and they were rather effective in their individual cases, but, as has been pointed out, the negotiations are still not satisfactorily concluded from our point of view. This program was conducted on a selective basis, using our own resources in those cases when we could make a significant negotiating point.

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Since we set up our program, we have reviewed 30 cases where the American exporter faced confirmed mixed-credit competition. The total value of all these projects came to $1.1 billion. We actually matched or met that competition with a total use of about $40 million in the 12 cases I mentioned. Eximbank countered and the U.S. suppliers have won three of these contracts and four are still undecided.

With my directive from the President and the prospect of a special fund devoted to tied-aid offers, Eximbank will become even more aggressive in its approach. Until additional funds are provided, Eximbank will step up its present program. On a case-by-case basis, we propose to more aggressively seek out and neutralize tied aid credits offered by countries that are refusing to negotiate. Where we feel we can inflict maximum damage on those countries that are giving us the biggest problems in these negotiations, we will offer better financing than those countries do.

We are also prepared to initiate tied-aid credits in certain markets our competitors may think they have locked up, ones where they haven't had to sweeten the financing deal to get the sale. In these cases, either the American exporter will get the order, or it will cost the competition a lot more to keep the business, and that should make them more willing to come to the bargaining table. We are of course ready to listen and talk, whenever they are.

Thank you very much. I will be pleased to answer any questions you and the rest of the committee may have.

Chairman NEAL. Thank you, sir, very much.

[The prepared statement of Mr. Draper follows:]

STATEMENT BY
WILLIAM H. DRAPER III
PRESIDENT AND CHAIRMAN
EXPORT-IMPORT BANK OF THE UNITED STATES
BEFORE THE
SUBCOMMITTEE ON INTERNATIONAL FINANCE, TRADE AND MONETARY POLICY
COMMITTEE ON BANKING, FINANCE AND URBAN AFFAIRS
U.S. HOUSE OF REPRESENTATIVES

OCTOBER 16, 1985

Mr. Chairman and Members of the Committee:

I am pleased to testify in support of H.R. 3515, which contains the President's proposal for the establishment of a $300 million tied-aid credit fund. This $300 million in grant money, when combined with regular export credits or private sector financing, can support $1 billion in tied-aid credits, and form the basis for extending mixed-credit offers of $2 billion to $3 billion. It will be a potent negotiating tool in our efforts to stop certain countries from using aid money to buy export orders.

As you know, this Administration steadfastly opposes the blending of aid funds -- those set aside for humanitarian and developmental purposes -- and export credit funds simply to lower the overall interest rate. The use of developmental funds to win commercial export orders is a distortion of both aid and trade.

The $300 million fund is being proposed because of the lack of sustained progress in restricting this practice in negotiations with certain other members of the Organization for Economic Cooperation and Development. This lack of progress is surprising because most other

countries want to continue the significant gains that we have made in reducing the subsidy element in export financing. Our supporters feel, as we do, that export credit agencies should really be in business to encourage commercial financing by offering risk protection in developing countries.

In fact . . . through steady negotiating pressure . . . and Eximbank's own existing program of countering mixed credits . . . we managed to achieve some improvement in the OECD ground rules controlling the use of tied-aid in all types of financing. Mixed credits have been completely banned in large commercial aircraft and nuclear power plant financing. In April we achieved agreement to raise the minimum grant element in mixed credits used for other goods and services from 20 percent to 25 percent. We got the prior notification period for mixed-credits and other forms of tied-aid extended from 10 calendar days to 20 working days . . that's from a week-and-a-half out to a full month. The longer notification period gives us . . . and other countries . . . more time to attempt to get the country to withdraw the offer and agree that no one will offer mixed credits on that project. Or, failing this, we can put forth a competitive offer.

Although the increase in the minimum grant element is a step in the right direction, it doesn't go nearly far enough. We would like to see the minimum grant element increased to 50 percent. That would make these credits so expensive to use that it would virtually eliminate the use of tied-aid credits for commercial purposes. Development funds would be saved for those projects and those countries which really need concessional financing.

Let me say that I think that if international negotiations were conducted on a majority vote basis we would be much closer today to that 50 percent goal. But the fact is we need a consensus agreement. Even to agree to the 25 percent in April, the other members of the Common Market -- which negotiates as a single unit -- had to override French objections. They have made it clear to us that 25 percent is as far as the French are prepared to go. This pretty much leaves the ball in our court.

The French are dominant in the field of tied-aid credit and have been for many years. In 1980 the OECD reported mixed credit offers of around $2.1 billion. Of these France accounted for nearly $1.8 billion.

By 1984, the OECD was reporting mixed credit offers of nearly $6.5 billion. France continued to be the leading offender, with offers of $1.7 billion. But many other countries expanded their tied-aid credit programs to meet the French competition. For example, Italy jumped from offers of $24 million in 1980 to $370 million last year. Belgium made no mixed credit offers either in 1980 or 1981. Last year they offered nearly $450 million in tied-aid financing. Frequently several countries make offers for the same project. For that reason and because some projects are cancelled or delayed, the OECD estimates the actual magnitude of mixed credit financing to be somewhat less than the offers . . . ranging around $2 billion in each of 1983 and 1984.

The question arises: Is the $300 million grant fund sufficient to allow the U.S. to match competitive offers of this magnitude? The answer is emphatically: YES!

The $300 million being requested by the Administration would be used only for the grant portion of a transaction. The balance of the financing needed would be provided by Eximbank under its regular programs and on regular terms and conditions, or by commercial sources.

Assuming a need for an average grant element of 30% in such transactions in order to provide a competitive concessionary offer, the 30% would be derived from the new $300 million fund on a grant basis with the remaining 70% coming from Eximbank's regular direct credit funds or from private market sources. Thus, the total financing available to support U.S. exports with mixed credit offers would actually amount to $1 billion. To the extent that a smaller grant element could be used, the leverage provided by the $300 million fund could be increased.

Moreover, as you are aware, in international sales transactions many more bids are made by suppliers than are actually won by them. Thus, many of the financing offers by an official export credit agency will not be converted into final commitments. In FY 1985, for example, Eximbank issued preliminary commitments in excess of $5 billion, of which probably $1 to $1.5 billion will eventually be

converted into final commitments when the U.S. suppliers win the orders. Thus, while the $300 million of grant funds would support $1 billion of mixed credit activity, the U.S. could make $2 billion to $3 billion of mixed credit offers. This program would have a major impact on those countries we are anxious to get back to the negotiating table.

This is why we believe that the $300 million appropriation we are supporting will be fully adequate for a program that is aimed specifically at gettting the negotiations to eliminate tied-aid credits back on track.

Because the purpose of this fund is to negotiate an end to tied-aid credit abuses, and because we do not want to institutionalize mixed credits, we support placing this fund under the direction of the Secretary of the Treasury. This separates it from the United States' normal export credit programs.

Let me now talk a little about what we have been doing to counter foreign mixed credit competition, and what we intend to do until this $300 million funding is in place.

In late 1983 Congress directed both AID and Eximbank to establish mixed credit programs. However, no special funds were provided for this purpose. AID has been severely restricted in the number of countries in which it could participate. Eximbank developed its own concessionary financing program to counter mixed credit offers other nations had put on the table.

This program was conducted on a selective basis, using our own resources in those cases where we could make a significant negotiating point.

Since we set up our program, we have reviewed 30 cases where the American exporter faced confirmed mixed-credit competition. The total value of all these projects came to $1.1 billion. In a dozen of these cases, with a total value of over $400 million, Eximbank countered with concessionary offers on its own or in conjunction with AID. The U.S. suppliers have won three of these contracts, and four are still undecided.

Our most recent win was against a particularly egregious mixed credit line in Brazil offered by the French. They were offering financing at one-tenth of one percent over the minimum grant level. Our offer . . . which included a $10 million loan at 4.46 percent interest . . . helped American suppliers win a $44 million hospital equipment order from the State of Sao Paulo. Although the American equipment is much better . . . and competitively priced . . . the French could have stolen this business through the use of bargain basement financing. We stopped that. In fact, I recently returned from Sao Paulo where I signed that financing agreement.

With my directive from the President and the prospect of a special fund devoted to tied-aid offers, Eximbank will become even more aggressive in its appoach. Until additonal funds are provided, Eximbank will step up its present program. On a case-by-case basis we

propose to more aggressively seek out and neutralize tied-aid credits offered by countries that are refusing to negotiate. Where we feel we can inflict maximum damage we will offer better financing than these countries. We are also prepared to initiate tied-aid credits in certain markets our competitors may think they have locked up . . . ones where they haven't had to sweeten the financing deal. In these cases, either the American exporter will get the order, or it will cost the competition a lot more to keep the business. And that should make them more willing to come to the bargaining table. We are ready to listen and talk, whenever they are.

Thank you very much. I will be pleased to respond to your questions.

Chairman NEAL. Let us hear from Mr. Cornell and then we will have a chance to question you both. Mr. Cornell. We will put your entire statement in the record, and please feel free to summarize as you will.

STATEMENT OF ROBERT A. CORNELL, DEPUTY ASSISTANT SECRETARY OF THE TREASURY FOR INTERNATIONAL TRADE AND INVESTMENT

Mr. CORNELL. Thank you very much, sir. I will indeed summarize.

Mr. Chairman, the bill we discuss today is a major offensive in the President's campaign against foreign unfair trade practices. The war chest we propose will provide strong and necessary leverage on recalcitrant governments to join the great majority of our industrial nation trading partners and negotiate an end to the misuse of tied-aid credits for predatory commercial purposes.

Despite the reduction of export credit subsidies that we have achieved by negotiation over the past 5 years, tied-aid credits which use aid alone or in combination with normal export credit financing have become a serious problem for U.S. exporters. The number of notified tied-aid credits with low grant elements has doubled since 1982. And as we have already heard, the OECD predicts that the amount of such offers will increase to over $6 billion this year.

One country, France, leads the pack in promoting this pernicious practice. Although many others have adopted programs to match France, French tied-aid credits still account for a third of all tied-aid credits with grant elements below 50 percent and more than half of all tied-aid credits with grant elements below 35 percent. These credits, which we consider an unfair predatory trade practice, have caused the United States to lose key export sales and have diverted funds away from development assistance.

Their continued use threatens to undermine the arrangement and increase international trade tensions. The clearest, simplest and most direct solution to the problem is to raise the minimum permissible grant element of tied-aid credits from the current 25 percent to 50 percent, a proposal presented by the United States to the OECD export credits group as long ago as December 1983.

This would make the cost of such credit so high that no country's aid budget could sustain such a diversion from real economic development assistance. Unfortunately, our negotiations have now reached an impasse. While most industrialized countries can accept greater discipline over tied-aid credits, a few countries, notably France, supported by Italy, are now blocking negotiating progress.

We need an initiative to break this logjam. The Trade Development Enhancement Act of 1983, which created a tied-aid credit matching program, has not given us sufficient leverage. Selective matching by the United States, and more aggressive matching by other countries, have not deterred France from continuing to offer predatory tied-aid credits, nor have they encouraged France to negotiate.

To combat these unfair trade practices and to break the impasse that we face, the President has announced the following new initiatives:

First, the Secretary of the Treasury has submitted legislation to authorize appropriations for a $300 million facility for outright grants to mix with Eximbank credits or private sector loans.

Two, the Eximbank will begin immediately to draw on its capital and reserves to offer tied-aid credits as a temporary step until the proposed legislation is enacted.

Third, the Secretary of the Treasury, who has the lead in the negotiations, has been directed to control the use of these funds with the advice of the National Advisory Council on International Monetary and Financial Policy on which both the Export-Import Bank and AID are represented.

Since the initiative is neither for export promotion nor economic development assistance, the Eximbank and the Agency for International Development should not be asked to administer it.

Finally, the war chest should be dismantled when our negotiating objectives are met. We have designed the administration's proposal to increase our negotiating power so that we have the clout we need at the table, to avoid an open-ended entitlement program, and to keep the budgetary impact as low as possible.

A war chest of $300 million would support up to $1 billion of exports and as much as two or three times that in aggressive tied-aid credit offers, as Chairman Draper has mentioned. It would be targeted at those sectors and those markets of particular importance to countries impeding progress in the negotiations.

The program should be aggressive and preemptive not to mention predatory; not a program of merely matching tied-aid credits. Matching others' offers does not work. If we do only that, we will perpetuate rather than eliminate the practice; we will throw good money after bad.

We seek the authority to go on the offensive, to initiate tied-aid credits and outbid selected foreign tied-aid offers in deals which are of particular importance to countries blocking the negotiations.

The proposed bill defines its purposes clearly. It will give us the ammunition we need for a hard fight, but it will not establish a permanent subsidy and entitlement program.

The bill has a sunset provision, and the President would have discretion to end the fund earlier if negotiating victory has been achieved.

The budgetary impact would be limited by authorizing the use of grants rather than low-interest loans which would require more appropriations.

We have tried to ensure that the fund does not taint the objectives of Eximbank and U.S. AID or divert funds from other important bilateral and multilateral assistance programs.

In conclusion, Mr. Chairman, let me say that we, the negotiators who have gone through so many frustrating years, believe in this bill and believe it will give us the commanding strength that we need. To implement the President's attack on unfair trade practices, we seek speedy enactment of our war chest initiative.

Thank you, sir.

[The prepared statement of Mr. Cornell follows:]

STATEMENT OF ROBERT A. CORNELL
DEPUTY ASSISTANT SECRETARY
INTERNATIONAL TRADE AND INVESTMENT POLICY
UNITED STATES TREASURY
BEFORE THE SUBCOMMITTEE ON
INTERNATIONAL FINANCE, TRADE AND MONETARY POLICY
COMMITTEE ON BANKING, FINANCE AND URBAN AFFAIRS
UNITED STATES HOUSE OF REPRESENTATIVES

We are grateful to the subcommittee and to you, Mr. Chairman, for permitting us to present the Administration's initiative for a so-called War Chest to combat tied aid credits. It is a major offensive in the President's campaign against foreign unfair trade practices. The legislation is designed to foster free and fair trade -- to establish a balanced competitive environment where U.S. businesses can compete fairly.

Our initiative is not designed to create a new subsidy program to promote exports. This legislation purposely avoids setting up an unfair trade practice of our own to mimic the unfair trade practices of other countries. On the contrary, the War Chest will provide the necessary leverage on governments to join the great majority of our industrial nation trading partners and negotiate an end to the misuse of tied or partially untied aid credits for predatory commercial purposes.

The Tied Aid Credit Problem

We should recognize at the outset that most of our negotiating objectives have been achieved in the field of export credits. After several years of negotiations, the 22 OECD nations revised the Arrangement on Export Credits in November 1983 to reduce greatly and in many instances eliminate export credit subsidies.

In the last year, we further agreed to essentially eliminate financial subsidies for nuclear power projects and large commercial aircraft. Moreover, participating countries, including France, agreed to prohibit the use of any tied aid credits whatsoever in these two important sectors. These

agreements by OECD member governments are among the most significant recent advances in free trade.

With the reduction of export credit subsidies, however, tied aid credits, which use aid alone or in combination with normal export credit financing, have become a more important problem for U.S. exporters. The scope of the problem is revealed by the following:

-- A recent OECD study, prepared at the behest of OECD Ministers, concluded that tied aid credits with low levels of concessionality distort aid and trade more than credits with high grant elements.

-- The number of notified tied aid credits with low grant elements has doubled since 1982.

-- The OECD predicts that the amount of such offers will increase to over $6.0 billion in 1985.

-- Although many other countries have adopted programs to match France, French tied aid credits still account for one-third of all tied aid credits with grant elements below 50 percent and more than one-half of all tied aid credits with grant elements below 35 percent.

These credits, when used for commercial purposes in the guise of foreign aid, represent an unfair trade practice, have caused the United States to lose key export sales, and have diverted funds away from development assistance. Thus, the continued use of commercially motivated tied aid credits threatens to undermine the Arrangement and increase international trade tensions.

The Negotiating Impasse

The clearest, simplest, and most direct solution to the problem of commercially motivated tied aid credits is to raise the minimum permissible grant element from the current 25 percent to 50 percent, a proposal presented by the United States to the OECD Export Credits Group in December 1983. While it would not completely eliminate the problem, it would make the cost of such credits so high that no country's aid budget could sustain such a diversion from real economic development assistance.

Increasing the minimum permissible grant element to 50 percent is not so shocking as it may appear. The most recent OECD Development Assistance Committee statistics show that the average grant element of all aid provided by these countries

was almost 90 percent in recent years. If one excludes grants, the average grant element of loans ranged between 56 and 59 percent.

To date, negotiations on tied aid credits have recorded modest successes. In 1982, OECD governments agreed to ban tied aid credits with a grant element below 20 percent. In April 1985, OECD Ministers improved discipline by raising the minimum permissible grant element from 20 to 25 percent and improved transparency through new prior notification and consultation procedures. The Ministers also directed OECD committees to develop new measures to further improve discipline and transparency. In July the Export Credits Group reached agreement on defining the tied aid credits which are causing the problem.

The U.S. Government welcomes these interim steps but, unfortunately, we have now reached an impasse. While most industrialized countries are prepared to accept greater discipline over tied aid credits, a few countries, notably France, supported by Italy, are now blocking negotiating progress. At the September 16-20 meeting of the OECD we were unable to make progress primarily because the European Community -- even with the Ministerial mandate -- had no flexibility to increase the minimum grant element or to explore alternative solutions.

We need a new initiative to break this logjam. The Trade Development and Enhancement Act of 1983, which created a tied aid credit matching program, has not given us sufficient leverage. Eximbank's ability to match has been limited since it must draw down its dwindling capital and reserves for this purpose. USAID action has been limited by the country allocation process and the requirement that its activities be for legitimate development purposes. The U.S. Government has thus offered only 12 tied aid credits since the bill was enacted. As a result, selective matching by the United States and more aggressive matching by other countries has not deterred France from continuing to offer predatory tied aid credits, nor has it encouraged France to negotiate.

The War Chest Initiative

To combat these unfair trade practices, the President has announced the following new initiative:

-- The Secretary of the Treasury has submitted legislation to authorize appropriations for a $300 million facility for grants to mix with Eximbank credits or private sector loans. The purpose of this program of tied aid grants is to buttress the Administration's negotiating efforts to eliminate predatory tied aid credits by other countries.

-- The Export-Import Bank will begin immediately to draw on its capital and reserves to offer tied aid credits as a temporary step until the proposed legislation is enacted.

-- The Secretary of the Treasury, who has the lead in the negotiations, has been directed to control the use of these funds with the advice of the National Advisory Council on International Monetary and Financial Policy, on which both the Export-Import Bank and AID are represented. Since the initiative is neither for export promotion nor economic development assistance, the Export-Import Bank and the Agency for International Development should not be asked to administer it.

-- The War Chest should be dismantled when sufficient negotiating progress has been achieved to restrict commercial use of tied aid credits with low grant elements.

The Administration's proposal is designed (1) to maximize negotiating leverage; (2) to avoid an open-ended entitlement program; and (3) to minimize the budgetary impact.

Leverage: To maximize negotiating leverage, we seek a War Chest of $300 million which would support up to $1 billion of exports. The War Chest would be targeted at those sectors and markets of particular importance to countries impeding negotiations.

The program should be aggressive and preemptive, not a program of merely matching tied aid credits. Other countries have matching programs which have not caused the initiators to agree to further discipline. Initiators retain the commercial advantage of being sought out first by the customer. If we only matched foreign offers, we would perpetuate rather than eliminate the practice, throwing good money after bad.

Consequently, we are proposing an offensive tied aid credit program. In particular, we seek the authority to initiate tied aid credits and if necessary to outbid selected foreign tied aid credit offers in deals which are of particular importance to countries blocking negotiations.

Cautionary Provisions: The proposed bill contains a clearly defined purpose which ties the War Chest to U.S. negotiating objectives rather than establishing a permanent subsidy and entitlement program. Treasury would control the fund. In operating the fund and selecting transactions to be targeted, however, we would rely heavily on the advice of the agencies in the National Advisory Council. In addition to a sunset provision of September 30, 1987, the President would have the

discretion to end the fund earlier if sufficient negotiating progress has been achieved.

Budgetary Impact: The budgetary impact would be limited by authorizing the use of grants rather than low interest loans (which would require higher appropriations). By appropriating the fund directly to the Department of the Treasury, we have tried to ensure that the fund does not taint the objectives of Eximbank and USAID nor divert funds from other important bilateral and multilateral assistance programs.

Conclusion

Tied aid credits and partially untied aid credits with low levels of concessionality are increasingly undermining the international system of trade and finance. Our War Chest initiative will greatly enhance our leverage to negotiate restrictions on the commercial uses of tied aid or partially untied aid credits. In order to implement the President's attack on unfair trade practices, we seek speedy enactment of our War Chest initiative.

This legislation purposely avoids setting up an unfair trade practice to match unfair trade practices of other countries. Such a course would ultimately injure all parties. Our effort is to decrease, not increase, international tensions in the field of trade finance. Our responsibilities lie in leveling the playing field for free and fair trade.

Chairman NEAL. Thank you, Mr. Cornell.

I have just one quick question, maybe to play the devil's advocate for a minute. You know, as I said in the opening statement, we tried to push legislation through before that would do this.

Now I guess I have to raise the question: Why do you need the legislation now? As we pointed out, Exim always had the authority to grant mixed credits and was instructed in the Trade Development Enhancement Act of 1983 to establish a program for mixed credits. Moreover, Exim has had ample funds for the last several years. For example, Exim's direct loan budget has been $3.8 billion for the last couple years; in 1984, Exim used only 38 percent of that budget; in 1985, only 17 percent. The rest of its direct loan budget could have been used for mixed credits, but very little was actually offered.

Are you sure the new fund is necessary? Why not just use existing authority, and probably in the way Congress suggested in 1983?

Mr. DRAPER. Mr. Chairman, I think you have to go back in history. As these negotiations developed, the mixed credit problem became more and more serious. In the beginning, say going back to 1981 or 1982, the concentration in the negotiations was in trying to reduce the differential between our cost and the other countries' cost, and the rates at which they were making normal credit offers.

The interest rates, as you know, were brought closer together—the official rates and the market rates—and they are now very close together to the point where we have very little subsidy in any country with regard to just the straight interest rate as dictated by the official OECD consensus. So that has meant that as the years have gone by, as we have gotten closer to market rates, our offers are not in as much demand, nor are the others.

We are not the only ones whose loans have gone down. The Japanese Eximbank has dropped 30 or 40 percent in the last year; and the same goes for France, Germany, and England. They have all dropped in the amount of business they have done, primarily because these rates have come closer together.

Then this other system of giving aid money away has become more and more important to all of us. As a result, you may say we are a little late in coming to the game, but we were hoping that through negotiation we would be able to reduce the practice. And, as a matter of fact, we did improve the system. The minimum grant element went from 15 to 20 percent and up to 25 percent. We wanted to get to a 50-percent required grant element, as you know.

So let me just say that all those elements came into our progression on the subject, and we hoped we would be able to get agreement without very serious commitment of taxpayer money as grants on these exports.

A case in mind that we turned down, for example, was the Thailand fertilizer plant that was proposed for $100 million, a mixed credit deal, and it was going to cost $80 million of actual losses—in other words, $80 million of gift—in order to get it. We didn't do it. We didn't propose it. We didn't propose to match that. Even if it is going to be a gift, we would just as soon let it go.

As I have reported before, England gave a large steel plant to Mexico. We don't need to match those cases every time.

So there have been—we have, on the other hand, as I say, matched some. Out of some 648 mixed credit proposals that came to the attention of the OECD, we did get in and do some subsidized financing, some below-consensus financing, to try to compete, on $171 million of those cases.

Now, as I say, we turned some down. That fertilizer case was the biggest one. We turned down several others, because they didn't make a point. The French were not clearly identified as the problem, or the Americans were tied in with the Japanese and other consortiums. In the case of an Indian helicopter deal, for example, there was a United Kingdom 78-percent grant. We didn't bother to get into that.

So, we have tried to be selective. But to answer the question, in sum, I think that Congress never gave us additional funding to do this, and our objective has always been to lend money and get the money back with interest. The commercial rates were not what we went to lend at, but the official OECD rates basically were. That was the intent of Congress, you know, and we have never heard any differently in that regard.

Chairman NEAL. I appreciate your comments, Mr. Chairman.

Let me restate the question. You have only used 17 percent of the budget, the direct loan budget, for 1985. You have existing authority for mixed credits. Since you have the authority and you have the money, why do we need a new appropriated fund?

Mr. DRAPER. One is authority, Mr. Chairman. What you are talking about is authority to make loans. The other is an appropriation. We are looking for an appropriation to make grants.

Chairman NEAL. My point is that you have the money already, so why do you need an additional appropriation?

Mr. CORNELL. I might be able to help on that, sir.

Essentially, there is no problem with Eximbank's lending authority. You are absolutely correct; up to the limit of its direct loan authority, Eximbank can put out that much money.

The problem is that Eximbank funds itself through the Treasury, through the Federal Financing Bank, at the going rates the Treasury is paying on the market. That means that when Eximbank engages in some kind of subsidized lending—be it a mixed credit program or whatever—the net results show up on the Eximbank's income statement and eat into its capital and reserves, since it is, in fact, getting back less money than it lent out.

Sooner or later when Exim runs out of capital and reserves, that will have to lead to a new request for appropriations to cover a new infusion of capital. There is no way of avoiding that. That is why we are asking for the appropriation up front as grant money, so Eximbank's capital and reserves can be kept whole.

Chairman NEAL. Well——

Mr. DRAPER. Just to add to that, last year we lost $342 million, and this year we expect to lose $408 million. That eats right into our dwindling capital and reserves. They are now getting to below $2 billion, and this equity supports $35 billion of loans and guarantees. So, we are a highly leveraged organization.

I think it is appropriate to ask Congress, specifically: Do you want us to do this? That is the objective of the exercise this morning.

Chairman NEAL. We can do it either way. It is an interesting point. Congress has said it wanted you to do it. You have got plenty of money to do it.

Mr. DRAPER. They wanted to do it without committing funds to do it. So we wanted to show you it is a commitment of funds right here. It hits the budget.

Chairman NEAL. That may be better. I am not saying it is not. It may be better to say—make it clear that we have to borrow, in both cases. Maybe it is better to borrow specifically for this fund. But it is an interesting question.

You have the authority. You have the intent of Congress. You have the money. And yet, it hasn't been used in this way.

Yes, sir, Mr. McMillan.

Mr. MCMILLAN. Can I ask a clarifying question?

Do you have any authority to make a grant?

Mr. DRAPER. No.

Mr. MCMILLAN. That is the difference.

Mr. DRAPER. That is the difference. You put your finger on it.

Chairman NEAL. No, no. They do have authority.

Mr. DRAPER. No, not to make a grant. We have to have a reasonable assurance of repayment in every loan we make.

Chairman NEAL. I guess Mr. Kolbe is next.

Mr. KOLBE. Mr. Chairman, just a very quick question to Mr. Cornell.

I was puzzled by your statement that the war chest would be dismantled when sufficient negotiating progress has been achieved. Then just a few paragraphs on, you say that it would be sunset in 1987.

Are we absolutely confident and certain we will have the negotiating progress by that date? Is that the reason for tying it to 1987?

Mr. CORNELL. Yes, sir. I think we are quite confident. If this program works in the way that we intend it to work, we will really reek havoc on those countries we intend to target. I think that within about 1 year to 18 months, we will not just have sufficient progress at the negotiating table; we will have victory.

Mr. KOLBE. Would the administration have any problem writing in that provision that it will be sunset at such time as the negotiating objectives are achieved, rather than the specific date, rather than tying it to an absolute date?

Mr. CORNELL. I suppose, sir, it doesn't matter. The real question is: Do we think the $300 million is sufficient to get where we want to get, regardless of time written into the bill?

We thought long and hard about that, given our experience with not only the negotiations but with the business as it has gone on in the last few years. And I think it is fair to say that we really think that the amount is right and that the timing we have set to achieve the objective is probably even longer than we need.

Mr. KOLBE. Thank you, Mr. Chairman.

Chairman NEAL. Mr. LaFalce.

Mr. LAFALCE. Thank you, Mr. Chairman.

I am going to be an enthusiastic supporter of this initiative, although we might tinker with some provisions of the bill during the markup process. However, I am not going to let this opportunity go by without any reference to the gentlemen at the table now, but

with specific reference to this administration, by uttering my complete disdain for them and without indicting the administration for the policies that they followed for the past 4½ years. The policy that they are enunciating now represents a total about-face from the policies that they have espoused and practiced for the past 4½ years, which has been total laissez faire economic theory.

It was this administration that came in and asked for the elimination of the Eximbank initially, which many individuals said would be tantamount to unilateral disarmament. It was this administration that wanted to dismember, decrease tremendously the authority of the Eximbank. Let's not forget this. It was this administration that opposed this subcommittee's initiatives in 1983 to give monies behind the authorization that we gave to Eximbank in 1983. And the only reason that this money was deleted from the congressional legislation was because of the strong administration opposition to the money.

I would also point out, too, that this administration has been mouthing its opposition to industrial policy, and yet clearly what we have here is a recognition that it is imperative if we are going to be competitive against the industrial policies of other nations for us to come up with our own preferable industrial policy.

I welcome this change in heart, but again we are not going to let it go by without indicting the present administration for the permanent damage that has been wrought to industry after industry in the United States over the past 4½ years, because of their laissez faire approach, both with respect to macroeconomic policy and with respect to microeconomic policy.

Mr. DRAPER. Just a word for the administration. I think they thought that the Congress would spend less money and——

Mr. LAFALCE. Congress spent exactly the same amount of money as the President has asked for, Mr. Draper; but what we have done is raised an awful lot less revenues than we had before as a percentage of GNP, and that is the principal cause of this budget deficit.

Mr. DRAPER. But we all agree that that is the key problem.

Mr. LAFALCE. Let's stick with the problem that we——

Mr. DRAPER. The budget deficit is very related. It caused a large part of the problem.

Mr. LAFALCE. Sure it is.

Mr. DRAPER. And that is why we are here today.

Mr. LAFALCE. And we can debate the budget ad nauseum, and certainly has to do with the trade deficit. The administration was asleep on macroeconomic policies when they did absolutely nothing about the dollar. They have been asleep on microeconomic policies as witnessed by the need for this bill now, which they said was unnecessary; and it represents a total reversal of their position of the entire past 4½ years.

Mr. DRAPER. That is why we have people on both sides of the aisle to try to decide these things.

Mr. LAFALCE. I just want to make clear where the other—I shouldn't say the other side because that would be unfair—rather, where the administration was for the past 4½ years.

That is it, Mr. Chairman.

Chairman NEAL. Mr. Chandler.

Mr. CHANDLER. I think Mr. Bereuter had some questions.

Mr. BEREUTER. No, go ahead, I am just a visitor.

Chairman NEAL. And a most welcome visitor, but we thought we would recognize subcommittee members first.

Mr. CHANDLER. I would like to defer to him, if that is appropriate?

Chairman NEAL. Sure.

Mr. BEREUTER. I thank my colleague for yielding. And I thank you for permitting a Member, not of the subcommittee, a chance to take this up.

I also deal with this in the House Foreign Affairs Committee, as well; but I would like to ask two quick questions. We have already mentioned the French as being primarily aggressive, the Italians are assisting in blocking some resolve.

What other nations would you list as being the nations now using mixed credit rather aggressively.

Mr. DRAPER. Belgium; and it is a tricky problem, but Japan has had a series of untied credits that have, in effect, has some subtle ties, and we are concerned about them. But they seem more supportive in the negotiations that I have participated in anyway, and we are counting on their support in helping us get to the 50 percent, or somewhat close to 50 percent, grant element requirement.

Mr. BEREUTER. I was going to ask about Japan, and why that had not been mentioned. The New York Times' article of September 26 brings two specific instances to the attention of the reader; and one is related to the second Bosporus Bridge where they were successful in using that approach. The other was the equipment for the Indonesian project.

I would just mention today a concern that I had which was created last week when one of the leaders of the Liberal Democratic Party, Mr. Nakaido, the Vice President from Japan's Diet was here. They outlined in detail the foreign aid assistance they will be providing in addition to the levels they now provide. It is very substantial.

My recollection is something like $40 billion in 6 or 7 years. When I asked them whether in effect this would be used for mixed credit or tied aid, I got a very vague answer.

And I think it is important that they not come here and disguise commercial interest, taking away third nation markets from us, while they are suggesting to us that this is one response to the huge trade deficit. It may reduce other parts—other parts of it may reduce our deficit with Japan, but it could well result in a larger trade deficit for the United States if they devote an additional $40 billion over that period of years to mixed credits.

So, I would hope we will be very careful and very insistent that that not be the case with respect to Japan.

Mr. DRAPER. We did tighten the definition in the negotiations that specifically affected Japan's tied/untied credit. What we mean by that is they make a loan to Malaysia, say, at low interest, 4-percent interest for 20 years, and they have some tied commitment that they will buy Malaysian gas in that agreement. Then beyond that there may be drilling equipment and other things, and when it comes time for that, the Malysians are typically going to use

Japanese equipment because they have this long-term arrangement.

It is very hard to pin that down; but we have better definitional controls over that in the recent OECD negotiations so we feel better about the Japanese situation. We do feel that on straight mixed credits, which we are talking about here, that would get perhaps Japanese support if we can get France and the other European community in there.

Incidently on the Bosporus case, the British went very aggressively against Japan; but the problem was that the price differential was substantial, it was a bout with a $40 million differential in price or even more. So, too, we were out of price on the equipment itself.

Mr. BEREUTER. One final question—and I appreciate my colleague from Washington yielding—I understand this is to be a temporary program, a response to a condition that we do not—to a type of assistance we do not agree with.

Why does the administration, and why does the Treasury believe that we might best pursue even a temporary program of this nature through the Department of the Treasury rather than through export promotion agencies like Commerce.

Mr. CORNELL. The main logic that we use in that argument, sir, goes as follows:

Working on the premise that Treasury is in the lead in the negotiations and that the proposed legislation is designed exclusively to support winning the negotiations, it seemed to us to make a lot of sense to put the administration of the grant money in that same agency.

Now, there are two other reasons which are not subsidiary but they go alongside. One is that the primary mission of AID, of course, is to provide development financing. There is a problem that our approach would taint the AID program. The AID people agree with us on this. Their feeling is that they will be under pressure to divert funds from a particular kind of lending which they think has more developmental impact, to one which they are urged to do because it has more commercial impact.

The same kind of logic working upside down also applies to the Eximbank, which has a clear mandate in its charter to provide competitive financing in a very fair and across-the-board way.

It would be very difficult for Eximbank to maintain or follow that mandate while trying to administer a program that is targeted, and therefore not necessarily available to every exporter who comes in the door.

Those are the main reasons.

Mr. BEREUTER. Thank you.

Thank you, Mr. Chairman.

Chairman NEAL. Mr. Levin.

Mr. LEVIN. Thank you, Mr. Chairman.

Let me pick up on that subject and then go to some others, Mr. Cornell.

You say in your statement on page 4 since the initiative is neither for export promotion nor economic development assistance, Eximbank and the agency should not be asked to administer it.

I am puzzled. You say the initiative is not for export promotion. What does that mean?

Mr. CORNELL. Sir, it is more a question of emphasis than it is the outright meaning of words. Of course, this money is going to be spent to promote exports.

But it is not an export promotion effort in the same sense that the broad Eximbank program is a program open and available to all exporters. We are aiming our program at the negotiations and targeting it at certain countries, at certain deals. This will certainly turn out to be windfalls for those exporters who happen to win business because we are going to be offering such sweet deals; it is likely the borrowing countries will take them.

But in any event the main focus of the program will be on the negotiations, on trying to bring those countries around to seeing our point of view and agreeing to eliminate the practice entirely. Once we have achieved that, we will wind the program down and close it.

The reason we use words like "not for export promotion" is because we really are, I must say, struggling to avoid the creation of a new fund that will be viewed by the exporting community as an entitlement program.

Mr. LEVIN. As an entitlement—there is nothing wrong with the U.S. Government supporting export promotion is there?

Mr. CORNELL. Absolutely not.

Mr. LEVIN. When you say baldly that the initiative is neither for export promotion nor—whatever—I just think you send the message that all the administration is for is neutrality. Other than that, it should stay away, and that is just such an unreal attitude. It is part of your problem.

It is part of the reason you have put handcuffs on yourselves all these years. It is the reason we have such an inadequate number of foreign commercial service officers, disgracefully inadequate, because there is this notion that there is something impure about Government assisting the private sector to export in this country.

Anybody who sits down and writes words, the initiative is not for export promotion—you know, is just simply engaging, I think, in theoretical economic fantasies.

All right, it isn't the primary purpose—you know, you can shade it all you want. But you are sending, I think, just the wrong message, but the right notion of why you have not been neutral, but essentially inert, inert, Mr. Cornell.

Mr. LAFALCE. Very good.

Mr. LEVIN. Look, I signed Chalmers Wylie's bill, and I will support every effort to get off the dime, but I think it would be healthy for this administration, and I think the same for past administrations, once in a while to come before a subcommittee and say we were wrong, you know, and forget all the folderal, just say we were wrong.

The anger of Mr. LaFalce was very well placed, very well placed. I am all for declaring war on trade.

I think a little truth in Government might be helpful. It also would not distort the efforts of active public servants like Mr. Draper who has to come here and somehow explain away why just 2 years ago this administration—and I believe Mr. Draper, himself,

I will go back and look at the words—opposed the very proposition that you are now trumpeting.

Why don't you just say you were wrong?

What was the level of credits in 1983, tied-aid credits in the world?

Do either of you know what that figure was?

Mr. DRAPER. Yes; I have the figure.

For 1983, it was $3.2 billion according to OECD information exchange data.

Mr. LEVIN. $3.2 billion?

Mr. DRAPER. Actually $3.39 billion, I guess, because that includes the United States. You asked about the number of offers.

Some of those are competing offers so the actual number really I don't think we know, but it might be something like half of that.

Mr. LEVIN. But the offers were $3.4 billion?

Mr. DRAPER. Yes.

Mr. LEVIN. And they are schedule to go to $6 billion in 1985?

Mr. DRAPER. In 1984, $6.6 billion.

Mr. LEVIN. In 1984?

Mr. DRAPER. Yes.

Mr. LEVIN. There was no request here in 1984 to change your policy?

Mr. DRAPER. Right.

Mr. LEVIN. Let me just say a word about Japan, to agree with what Mr. Bereuter had to say.

When I was in AID the most open secret was that Japan development assistance was tied to their overall commercial interests. I just hope that you will take this very seriously.

The health programs which were good programs, were tied to the purchase of medicines from Japan, and on, and on, and on, and on, and on, and on. And I think you ought to take the blinders off. That doesn't mean that we should not aim for the most constructive relationships with the Japanese—we should—and should not laud them for their assistance programs, but we should be realistic as to what is involved.

One last point.

Mr. Draper, I think you had better spell out more clearly the case for a new appropriation. I don't think it is very persuasive.

I think what the request now appears to be—may appear to be is more political packaging than financial necessity. You are coming here at a time when the administration has now kind of reversed its position on the deficit, too, and we are faced—and I think appropriately so—faced with the need to face up to confront the deficit reality beyond what was done in the budget resolution.

You say, I just want to review this, and I do it in a friendly way, it is hard for me to be very angry at you. I think your main opponent has often been your administration.

You say, last year Eximbank lost the $342 million, this year $408 million, your cap is down now to less than $2 billion. Why not run it down more rather than appropriating some fresh money?

I will tell you, your case is a little more difficult because you came here just a few months ago and suggested you switch from direct loans to an I-Match Program in order to get the money off the books as part of the deficit.

Now you are coming here and suggesting that we put money on the books that will add to the deficit.

The argument given that you don't have the authority to grant money; but I think you better work on this. You may have a persuasive answer.

But a loan with very low interest, which you are entitled to provide, or no interest, as Mr. LaFaice, technically you are allowed to provide that, has a grand element in it. I have not worked out all of the conceptual details and maybe I would be unable to do this, and some experts will have to, as to whether that, in essence, doesn't give you the grant authority you really need.

But before this committee goes on the floor, before you ask a number of members of this committee to switch their motions, including some proponents of the bill, I think you better be sure that we are armed with the reason, the good hard reason, that this can't be done within your present lending authority.

I don't think the Members of the House are going to be very concerned that whether you would administer it, Mr. Draper, rather than Treasury, because you say here, and I think in a rather good natured way—no, Mr. Wylie said, illustrating this war chest to the Treasury Department, but still in conjunction with U.S. Eximbank will give Secretary Baker this kind of leverage I think he needs to prevent the United States from losing more export sales.

You know, we get so many bargaining chip arguments around here we don't know what to believe about bargaining chips, and what is permanent and what is temporary. So, if I might suggest strongly to you, do come back to us, if not today, at some early date—we are not marking this up today, are we?

Chairman NEAL. No.

Mr. LEVIN [continuing]. With a hard answer to Chairman Neal's hospitable question, he is a parent of this idea, I don't think he wants to strangle this particular product if it is a good idea, but I don't think your answer to Chairman Neal's cogent question was good enough to carry to the floor of this House with the kind of overwhelming deficit issue that we, are going to face at about the same time.

Mr. DRAPER. But I think the heart of the answer there, Congressman Levin, is that we, as an administration, are proposing this $300 million as a negotiating tool in order to bring about a change in what we feel has been an intransigent position of the French, primarily. Once they approve an increase in the grant element to a level we think is appropriate so that it is very expensive for them to do these mixed credits, we might not need the full $300 million.

So the reason it is put into the Treasury Department is to give them that tool. We go as a team, we and Treasury in these negotiations; they have the lead position, and it is appropriate that they have this grant money because it doesn't then detract from the Eximbank's program as established by Congress to make loans that will have a reasonable assurance of repayment. It would not require us to get into this program where we would be competing with other governments' aid programs as well as export credit programs.

All these other governments are using their aid money to mix in. You have asked me and Peter McPherson to put a mixed credit

program together. Well, the problem is Peter McPherson doesn't have the money to come in with his share. So we have been doing a little beyond what we really have been told by Congress basically to do. So this is a good way, it seems to us, to avoid bastardizing either program.

Mr. LEVIN. OK, but just to finish off, if the bargaining chip already exists—this is Chairman Neal's question, I think—the point is you have not used it. Why not shine it up and utilize it and make it clear it is there in terms of bargaining? I think if I might say, sir, you have to provide a more comprehensive complete answer to Chairman Neal's question.

Mr. DRAPER. We would be happy to do that in writing later.

Mr. LEVIN. Otherwise on the floor, $300 million, if it could be done another way, won't carry the day on the floor of the House, and it really should not carry the day.

[In response to the request of Congressman Levin, the following information was submitted for the record by Mr. Draper:]

DIFFERENCE BETWEEN EXIMBANK'S ANNUAL LOAN LIMITATION AND COST OF FUNDING HIGHLY SUBSIDIZED LOANS

The $3.86 billion limitation on the amount of new loans which the Bank was authorized to approve during FY 1985 was contained in the Foreign Assistance and Related Programs Appropriation Act. It is not an appropriation of funds. It is a limitation on the dollar amount of final commitments for new loans which the Bank could approve. These loans will be disbursed over a number of years as the exports are shipped. When disbursements are required under the loans, the funds will be obtained by the Bank through its existing borrowing authority. The Bank does not have the authority to make grants.

In FY 1985, because of low demand for direct loans, the Bank used only $659 million of that $3.86 billion loan commitment authority, leaving a balance of $3.2 billion uncommitted which expired at the end of the fiscal year. The budget for FY 1986 requests $1.8 billion in direct loan equivalent guarantee authority. Both the loan and guarantee authority, however, are different from the $300 million appropriation which the Administration has proposed to be used for grants to be mixed with standard export credits to provide a targeted tied aid credit program.

The $300 million grant authority is an appropriation to the Treasury Department to provide grants in combination with loans made by Exim at OECD Arrangement rates or with commercial loans. The result of the grant is to lower the overall effective interest rate on the total procurement package to rates well below Arrangement minimums, thus matching or over-matching highly concessional financing packages offered by other governments in support of their exporters' sales.

Eximbank's portion of a "tied aid credit" under this proposal would come out of whatever loan dollar limit Congress enacts for Exim for FY 1986, while the grant portion could come out of the proposed $300 million Treasury fund.

The Bank could offer to support an export sale with a very low interest rate loan which would result in the same effective rate on the financed amount of the export sale as the combination of an Exim loan at the OECD Arrangement rate and a grant from Treasury. This, however, would result in large losses for the Bank on these transactions, since at the time of disbursement the low interest rate loans would have to be funded by Exim at much higher market rates. These losses would contribute to further erosion of the Bank's equity base. The total loss to the Bank over the life of the transactions would far exceed the $300 million proposed Treasury grant authority.

We believe that if the Congress agrees that $300 million of taxpayer funds should be used for this aggressive, targeted purpose, the funds should be appropriated up front to the Treasury Department. This would clearly disclose the initial cost, would directly provide the funds to be used for this purpose, and would enable the Bank to use what will be a reduced lending authority in FY 1986 to support export sales with financing at OECD Arrangement rates.

Chairman NEAL. Let me say that I need to move on to some other members of the subcommittee. Excuse me—did you want to comment briefly on that, Mr. Cornell, and then we will go to Mr. McMillan.

Mr. CORNELL. Yes, sir. I think it might be useful here to nail down the facts as to why we are asking for grant money rather than simply the use of a loan authority, be it Exim's existing authority, or whatever. The plain fact of the matter is using the grant route, not available to Eximbank now because it is not in their charter, requires less budgetary authority to achieve the same objective.

Now, let me give you a few numbers. We will, for the record, provide you with the way the arithmetic works. Consider Eximbank authorizing, say, a $15 million tied AID credit with a 30-percent grant element. Assume that the concessional loan is at a 2-percent interest rate and a repayment term of 20 years. That is a credit; there is no outright grant money in it. It is just a loan that is subsidized. The budgetary authority required for the concessional portion is over $6 million. The cost of that credit to Eximbank's capital and reserves over the whole term of the loan will be $10 million.

On the other hand, if you provide an outright grant right at the outset to create that 30-percent grant element, you only need about $4.5 million in budgetary authority from the fund. That is the reason we think this is a better way to go. It requires less budgetary authority, and will be easier for Treasury to administer.

Chairman NEAL. Please do that.

Mr. LEVIN. Does that include the cost of the United States borrowing the money for the grant?

Mr. CORNELL. Sure, it does, yes.

Chairman NEAL. Please, Mr. Cornell, excuse me just a second, expand on that a bit for the record, and we look forward to seeing that.

[In response to the request of Chairman Neal, the following information was received for the record by Mr. Cornell:]

EXAMPLE

A mixed credit is extended to a foreign buyer conditioned (tied) to purchase of the donor country's exports. The total value of the export to be financed is $100,000,000.

The mixed credit can be in the form of an official export credit at OECD Consensus rates and terms currently in effect, plus (a) a soft loan or (b) a grant.

(a) If soft loan:

Assume the soft loan is at 2% interest repayable in equal semi-annual installments over 30 years. Using the OECD rules for calculating grant elements, the grant element for this soft loan is 53.92%, ~~(see attached OECD Grant Element Table)~~. By definition, the grant element of the OECD Consensus loan portion is 0%. The mixed credit consists of the following parts:

Soft loan	$ 55,638,000
OECD Consensus loan (0% grant element)	44,362,000
	$100,000,000

The overall grant element of this mixed credit is 30%.

$$53.92\% \times \frac{\$\ 55,638,000 + 0\% \times \$\ 44,362,000}{\$100,000,000}$$

(b) If grant:

Grant (100% grant element)	$ 30,000,000
OECD Consensus loan (0% grant element)	70,000,000
	$100,000,000

The overall grant element of this mixed credit is also 30%.

$$\frac{100\% \times \$\ 30,000,000 + 0\% \times \$\ 70,000,000}{\$100,000,000}$$

Chairman NEAL. I would recognize Mr. McMillan on this.

Mr. MCMILLAN. I had not intended to get to the grant question, though that was my first question 30 minutes ago, and I thought you answered at that time that you did not have grant authority in the Eximbank and the direct grants, a very important part of the negotiating leverage that you request of the Congress, that is pretty clear to me. I wasn't here 2 years ago when the other debate occurred, so I will not harken back to that.

But let me ask you this: If it is a matter at issue of this being an incremental budgetary item, and if we have unutilized funds, a surplus, in Eximbank, is it possible that some of that $2 billion could be converted to grant money or given grant authority on the $300 million of the $2 billion surplus?

Mr. DRAPER. Well, first of all, you know, we have an asset in the Eximbank that is dwindling, and that is our net worth. If we give $300 million away, then whether we do it through the Treasury or through Eximbank, it still hits the budget just as heavily. I don't think there is any difference.

Mr. MCMILLAN. Well, it might——

Mr. DRAPER. It might postpone it.

Mr. MCMILLAN. The $2 billion has been budgeted already presumably and the $300 million has not. We are $200 billion short in terms of balancing the budget, so——

Mr. DRAPER. We borrowed much more heavily than the $2 billion. We actually were authorized by Congress, and the Treasury gave us a capital amount of $1 billion back in 1946, and we loaned money at above our cost of funds through about 1967. After that, we started to make loans below the cost that we were borrowing from the Treasury, but we continued to use our capital as leverage. So over the years our leverage went from 0 to 1 to 1 to 2 to 1 to 3, to 1 to 6, to 1 to about 7 now, and will continue to rise as our capital and reserves continue to diminish. We will come back to you anyway in fiscal year 1987, and we will present the facts to you, which will be that our capital has depreciated to so much, and then you can decide whether or not you want to recapitalize the Eximbank.

But the more appropriate time is probably when we come up for our next span of life.

Mr. MCMILLAN. In your response about the grant, as opposed to a lending pool type of arrangement, I think part of your explanation of that answers the other questions raised about your coming up for grant money now. I want to just pursue one other matter a little bit.

In terms of defining the scope of the problem, do we think we have a good idea as to the total impact of foreign activity that works adversely on U.S. industry competing for export markets in the credit field? In other words, is $3.2 billion an accurate representation of the nature of the problem?

Mr. CORNELL. Sir, the representation of the nature of the problem probably lies somewhere between around $3 billion and that maximum figure of $6 billion, which we said was likey to be the sum of all the offers that are put out on the table this year. That is the most current figure we have. The reason it is so wishy-washy in between is because a lot of those offers are competing offers, only

one of which will be taken up. So there is some double counting in there.

To give you some perspective on exactly where the mixed credit problem fits in relation to the whole spectrum of export credit business that occurs around the world in a given year, long term export credit lending by Eximbank and its counterpart organizations among the industrial countries runs in the neighborhood of $30 to $40 billion a year. If you add in short and medium term lending to that, you have to add another $100 to $120 billion. So we are talking about really a rather small part of the total export credit pie.

That furnishes an explanation, by the way, for why this mixed credit problem has gotten delayed attention. Getting rid of the major subsidies that existed until a few years ago on the larger amount was our primary negotiating objective.

Mr. McMILLAN. And the problem became magnified by excessively high interest rates that developed over the last 4 to 5 years, isn't that true?

Mr. CORNELL. Yes; that is right.

Mr. McMILLAN. Firms of the United States being able to compete in the private sector for export financing?

Mr. CORNELL. That is right. One of the problems also with mixed credits is that they tend to be used for specific and discreet kinds of projects. They affect certain sectors in the exporting community more intensively than you would just judge from the numbers. That is indeed why it is a problem we have to respond to.

Mr. McMILLAN. Let me ask one additional question, and then I will finish. It seems to me we are talking about using these funds offensively, and our ultimate aim is to negotiate agreements whereby this type of subsidy ceases. That may or may not be ideal, so I am not sure about that, purely idealistic, and we may need it for leverage ongoing, but I am also concerned about the degree to which exports into this country are subsidized by those same types of credits if we intend to use this for negotiating leverage in trying to eliminate those subsidies, as well, which works adversely to U.S. industry. Although we may not be exporting, it may deprive the U.S. industry of being able to compete within our own borders for business, but it is the same type of credit. It may be of a slightly different nature, but it is part of the same problem.

Mr. DRAPER. We have an agreement that fits under this OECD consensus that precludes these various countries from financing below market into this country, so we have not faced this kind of thing in the United States.

If it occurs, as once in a while it does, there is a mechanism for U.S. companies to appeal to the Treasury, under section 1912 of our 1978 legislation, and if Treasury finds that it is predatory financing and has caused us a major problem, we can match that in the Eximbank.

Actually, the last case was the Canadian offer on the *New York Subway* case, and in that case the Treasury decided that financing wasn't the primary problem, so we never did have to attack it. But that has not been a major problem in our loss of business up to this point.

Mr. McMillan. It has, been a major problem, in my personal experience. I have seen it happen in two basic industries in this country, and the production of textile machinery and production of printing machinery, both of which are exported into this country and at tremendous volume, largely on credit terms that can't be met.

Mr. Draper. Is it the credit or the low price of the machinery?

Mr. McMillan. I think once you have destroyed a market, then the price is not an issue. But credit was often the opener to get the business.

Mr. Draper. We have financed a number of textile machinery equipment exporters and tried to get more and more of that business, but it is difficult because we find the pricing is different.

Mr. McMillan. The industry has been destroyed now. There is not much left of it.

But you have answered my question. It is not our intention to use this even from a leverage standpoint to eliminate that type of practice.

Mr. Draper. If it occurred, we would like to know about it.

Mr. Cornell. I think there, sir, you need to look at the rest of the program that has been announced by the President. That would include the basic decision taken by this administration to self initiate unfair trade cases like section 301 cases. As a matter of fact, in cases of export subsidies in general for any of the countries that we are talking about in the OECD group, they are all signatories to the GATT Subsidies Code. There isn't any reason why they can't be taken to court, if you will, really pinned to the wall under the countervailing duty law.

Mr. McMillan. The problem is in the fact that it is overly cumbersome and doesn't work. I agree with you, though, we have——

Mr. Cornell. We have a tremendous number of cases flowing through the mill all the time.

Mr. McMillan. They are too slow. I don't want to get off on that subject, it is a much broader issue. Thank you.

Chairman Neal. Mr. LaFalce.

Mr. LaFalce. Thank you, Mr. Chairman.

Mr. Draper, on page 5 of your statement, in the last paragraph, you state: "In late 1983 Congress directed both AID and Eximbank to establish mixed credit programs. However, no special funds were provided for this purpose."

As I read that, I take it you are complaining of that fact. Is that right?

Mr. Draper. No; I am just stating a fact.

Mr. LaFalce. Oh.

Mr. Draper. I never complain about the Congress. You know that.

Mr. LaFalce. I didn't say you were complaining about the Congress, I said you were complaining about that fact.

What was the administration's position in 1983 with respect to special funds for that purpose? Do you recall that?

Mr. Draper. Well, I think the Congress directed that a program be established, the mixed credit program be established——

Mr. LAFALCE. This would also provide funds for that, and those funds were beaten back. Do you recall the administration's position?

Mr. DRAPER. I don't recall any funds being appropriated for it.

Mr. LAFALCE. By the committee, yes.

Mr. DRAPER. I don't remember that.

Mr. LAFALCE. Well, it seems to me that the administration, and as I recall it, I thought you on behalf of the administration said that funds were not necessary.

Mr. DRAPER. But I am not complaining.

Mr. LAFALCE. OK.

Mr. DRAPER. I am not complaining about what happened in 1983. As I pointed out, this has been a turning up the heat kind of a negotiation, and, as Mr. Cornell pointed out, it really came later in the negotiations where the mixed credit became more of a problem because, as we point out, a lot of these other countries began to get into it. France has always——

Mr. LAFALCE. We will go into the other countries in a second. For a second, I will yield to Mr. Levin.

Mr. LEVIN. Well, just for the record, I was reading over the transcript of the hearings, 98th Congress, the first session, and this is what Mr. Leland said on behalf of the administration. "We really can't expect to eliminate the unfair use of mixed credits by engaging in this practice ourselves."

And you were asked—Mr. Neal had his bill in and Mr. Parris, I think, was moving to delete funding, Mr. Draper, you were asked by Mr. Parris, "What is the administration doing to abolish predatory financing? That is the bottom line, isn't it?" Your response was, "Make no mistake, we are against mixed credits."

Mr. DRAPER. And we still are.

Mr. LEVIN. But we are going to use them.

Mr. DRAPER. You bet, only because we are using them to try to reduce the use of mixed credits by other countries. What we want more than anything else is to eliminate the use of mixed credits by all countries.

Mr. LAFALCE. Let me reclaim my time.

What is the basic difference between the mixed credit program that Congress authorized, specifically authorized in 1983—forget about the question of funding for a second—and the mixed credit program being authorized or requested by the administration? I think we have to get that clear. Is there a difference?

Mr. DRAPER. That is a good question and deserves a straight answer. The definition of mixed credit is normal, official credit supplied by export/import banks such as our own and mixed with aid programs supplied by, in our case, AID, in the case of Japan from their OECF, or an aid program in each of the other countries. They are separate programs.

The mixing of these two is what we are trying to eliminate and if the mix is more than 50 percent aid, we feel, well, that is all right. Then let it go. Let's not worry about it.

But what we are trying to eliminate is just seeding in enough aid money in order to buy what ordinarily would be a job for official Government credit. So that is very important. You have got to understand you asked for the definition.

You asked for a clarification and I think that you really should understand the differentiation.

Now, this new program that we are proposing is still separate from our normal official credit programs inside the Eximbank. What you proposed in 1983 also was mixed credit. It was AID working together with Eximbank.

You even spelled out that we, the two administrators, should get together and work out the way in which it would work.

Now, every single time we have had a case come to Eximbank where we have felt that it should be answered with some kind of an aid mix, I have written a letter to Peter McPherson asking for his share, for 50 percent or whatever he could come up with.

He has been eliminated because of tight budget constraints—and I am the last one that wants to take it away from the developmental purposes of the AID—but we have asked him every single time to participate. They have participated in only two cases.

One was in Africa, Botswana, and the other in a General Electric case in Egypt.

Mr. LAFALCE. But let's——

Mr. DRAPER. This is important to understand it.

Another is an Indian case which we haven't yet quite gotten pinned down, but we are trying to with Control Data's sale to India of some high-technology equipment.

So all I am saying is you asked what is the difference. The difference is this program is an actual grant, to be authorized by you, to be administered by Treasury since we feel that AID is really in a different business and we want to keep it that way. The grant funds have to be seeded in with the Eximbank's normal credit programs.

So that is the difference.

Mr. LAFALCE. Mr. Cornell.

Mr. CORNELL. I think, sir, I can't cite you information as to whether the 1983 legislation specifically requires it. I believe that a couple of years ago the thinking both within the administration and here, essentially was that the best way to handle mixed credits was to approach it from the point of view of matching the competition.

This sort of dichotomy between matching and being aggressive and actually out bidding began to come out in the earlier testimony. The idea of matching is carried forward in Congresswoman Johnson's bill.

Mr. LAFALCE. We are going to have to explore that because I personally feel strongly that we need both an offensive and a defensive program and I think——

Mr. CORNELL. I think that was the main difference.

Mr. LAFALCE. Yours, Mr. Cornell, is strictly offensive.

Mr. CORNELL. That is right.

Mr. LAFALCE. The congressional approach would have been exclusively defensive if implemented or if funded.

Query, whether it could have been implemented without the funding. We will leave that for a second.

But wouldn't it make sense to ask for both rather than just the one? I mean, wouldn't it make sense to say, Mr. Draper, you gave us the authority in 1983. We didn't get the money, whether it was

the administration's fault or the Congress, but we need money now in order that we could react appropriately.

AID, according to your statement, does not have the money. So separate from the President's initiative, shouldn't we also act in 1985 in the manner that we wanted to act in 1983?

Mr. DRAPER. You know, I have pointed out that we have been doing some of these, despite the fact we haven't gotten reimbursed by AID.

Mr. LAFALCE. You just said you couldn't do it.

Mr. DRAPER. No, no, no.

Mr. CORNELL. Sir, I tried to state in my oral testimony even more strongly than was written down that it is my personal view, based on 5 years watching the business, being in the negotiations, that matching mixed credits does not work.

It is throwing good money after bad, and it does not change anybody's behavior overseas.

Mr. LAFALCE. You still then, speaking for the administration, are opposed to the funding of mixed credits for Eximbank; is that correct?

Mr. CORNELL. I am opposed to a matching program because I don't think it will help us one little bit in the negotiations.

Mr. LAFALCE. All right. So you are still opposed now as you were in 1983. So let's get down to this offensive approach that you want to take. I thought it was because of the trade deficit.

I think the President's speech was what—September 29 or thereabouts? And he first mentioned this $300 million war chest in connection with the trade deficit and doing something about the trade deficit.

Mr. CORNELL. Excuse me. It was in connection with dealing with an unfair trade practice and this is patently unfair.

Mr. LAFALCE. All right. Based upon his total speech, based upon Mr. Draper's statement, I thought it was the trade deficit made up of many components and causes, one of which was unfair trading practices.

Now, but this got more thunder than anything else. This got more press than anything else. The trade deficit is almost $150 billion this year, right, give or take $5 billion.

Mr. DRAPER. Right.

Mr. LAFALCE. Almost $50 billion of that is Japan. About $25 billion or so is Canada. That is $75 billion. England is roughly maybe what, $20 billion? I am not sure exactly. I could be very wrong on that one.

Let's go down, though. To what extent does Japan rely on mixed credits? Are they one of the worst offenders or one of the least offenders?

Mr. DRAPER. No. They really are straight, by that definition that I gave you, of mixing OECF funds which is their AID and their Eximbank of Japan funds. It is a great exception when they do it.

Mr. LAFALCE. OK. So they are hardly an offender.

Mr. DRAPER. They seldom do it—initiating, I mean. They do match.

Mr. LAFALCE. So this offensive isn't going to help that much with the deficit with Japan.

Mr. CORNELL. I think I want to carve out a little differentiation. If you expand the definition and look at things that are called partially untied aid, if you will, and you talk to exporters who are competing with Japanese in Third World country markets, I think we have to say that the Japanese do represent a problem.

But in terms of dynamics of the negotiations and how we intend to solve that problem, we need to go after the others first because the name of the game is to isolate the Japanese.

Mr. LAFALCE. To isolate the Japanese with respect to this issue.

Mr. CORNELL. In the negotiations, yes.

Mr. LAFALCE. When Mr. Draper says they are hardly an offender at all on this particular issue?

Mr. DRAPER. On that definition, I agree 100 percent with what he is saying. Use of tied aid has been tightened somewhat, tied down by the definitional controls that we put on earlier in the spring in the negotiations.

You are not going to get away from the problem where they give $2 billion of 4 percent money to China for 20 years and then they say "China, that is to dig your coal," and then when it comes time to buy it——

Mr. LAFALCE. That is tantamount to a grant; isn't it? It is tantamount to a grant when Japan does it that way, but it is not a grant when Eximbank can do it. You just said a little bit earlier in your testimony, no; we can't give grants and we said, yes, but you can give concessional loans. That is basically the same thing as a grant.

Mr. DRAPER. I am saying we are trying it through concessional loans, but you asked me about the definition and the difference. One of the differences is it keeps our official credit on a more businesslike basis.

That is all. But I agree that Japan is a major problem in our total trade picture. No question.

Mr. LAFALCE. But with respect to this tied credits, France is the big problem; is that correct, Mr. Draper?

Mr. DRAPER. Right. Because they are the most difficult in the negotiations. We think if they come into line then we expect that Japan will.

Mr. LAFALCE. What is our trade deficit with France? Does anybody know? Is it very much?

Mr. DRAPER. $10 billion?

Mr. CORNELL. It is a good deal smaller than Japan.

Mr. LAFALCE. That we know.

Mr. DRAPER. With Japan, it is about $50 billion. With the EEC, it is about $20 billion, I think.

Mr. LAFALCE. So France's might be under $5 billion or so?

Mr. DRAPER. Might be.

Mr. CORNELL. The bilateral trade deficit has very little to do with the mixed credits problem because they don't offer mixed credits into our market. We are talking about competition in third markets. So the proper thing to do analytically is to look at the overall trade deficit rather than the bilateral trade deficit.

Mr. LAFALCE. You mean the President misled the public in his speech?

Mr. CORNELL. No.

Mr. LAFALCE. I thought he misled the public in his speech because he talked so much about the trade deficit, the unfair trading practices and, therefore, we have got to do something.

Mr. CORNELL. That is right. The overall trade deficit is very much affected by mixed credits but to look at the bilateral deficit between the United States and France or United States and Japan, that is not affected by their mixed credit practices because they don't use them to export to our market.

Mr. LAFALCE. We have got to get voting so I will thank the chairman very, very much for allowing me the time to ask these questions. I thank the gentleman.

Chairman NEAL. I wonder if our witnesses would answer some further questions if we submit them in writing?

Mr. DRAPER. We would be happy to, Mr. Chairman.

Mr. CORNELL. Yes, sir.

Mr. DRAPER. I think we are all trying to do the same thing, and that is to try and help bite the bullet. I think the time has come here where we are all turning up the heat, and maybe somebody was at fault for not getting more aggressive but I would just like to say for our side, if you think we are coming around to your position, then so be it.

We are delighted.

Chairman NEAL. I would thank our distinguished witnesses again. I have one quick question and then we will adjourn the hearing.

Congresswoman Johnson in her testimony emphasized a major difference between her bill and the administration's bill and pointed to its importance, and that was this question of a 10-day preliminary commitment requirement.

She would require that and the administration bill would not. Do you all have any brief comment on that?

Mr. DRAPER. Yes. I think she is thinking of the 10-day requirement where if you offer a mixed credit you have to give 10 days' notice to the other countries in order to do so before you make the offer. That gives us a chance to match it and now that has been expanded by negotiation to about a month.

It is 20 working days, I think. And I think all she is saying is that we ought to be prepared to answer a mixed credit when they come along inside that period of time. But we are now.

I mean we are authorized to do it. We often do it and the added time period allows us more time to consider. But we meet every week and we have never yet lost a case because we haven't moved on time. We worry about the exporter's time table very much.

Chairman NEAL. As I read her statement—I can't read her mind—but her statement indicates that she is concerned about us giving preliminary commitments almost immediately within 10 days. She says irregardless of what someone else has done, but if the situation calls for it, would you all have an objection to that time limit?

Mr. DRAPER. Yes. I think that time would not be smart. There is an original case and we study it. When it is a big project, to force the Board to act within 10 days, I think, would be a big mistake.

Chairman NEAL. I thank you again. The subcommittee stands adjourned.

Our next hearing will be next Wednesday.

Mr. DRAPER. Thank you, Mr. Chairman.

Mr. CORNELL. Thank you, sir.

[Whereupon, at 12:10 p.m., the subcommittee adjourned, subject to the call of the Chair.]

TO AUTHORIZE APPROPRIATIONS FOR TIED AID CREDIT

WEDNESDAY, OCTOBER 23, 1985

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON INTERNATIONAL FINANCE,
TRADE AND MONETARY POLICY,
COMMITTEE ON BANKING, FINANCE AND URBAN AFFAIRS,
Washington, DC.

The subcommittee met at 10:20 a.m. in room 2222, Rayburn House Office Building, Hon. Stephen L. Neal (chairman of the subcommittee) presiding.

Present: Chairman Neal; Representatives Levin, Fauntroy, Leach, Parris, McCollum, Chandler, and Kolbe.

Also present: Representative Stan Lundine of the full committee.

Chairman NEAL. I call the subcommittee to order at this time. We had better go ahead and start. I am afraid we might be interrupted by votes, and we do need to hear from our distinguished witnesses.

This morning we are holding our second hearing on tied-aid credit, or so-called mixed credits.

The bills before us all recognize that the administration has failed, so far, to develop an aggressive and effective mixed credit program. Two years ago, many of us on this subcommittee fought for the establishment of such a program. We realized that the only way to stop the use of predatory mixed-credit financing was through facing our heavily subsidized foreign competitors with our own weapon. Unfortunately, the administration opposed our proposal, and defeated us in our efforts. While refusing to admit its error or policy reversal, the administration is now claiming that we need, in the words of Chairman Draper "a potent negotiating tool." The administration's belated conversion is a welcome change in attitude.

Though we now seem to share the same objective, there is considerable scope for disagreement on the structure of a "war chest." We must confront three major issues.

First, who should administer a mixed credits program? Should it be administered by the Department of Treasury, abolishing the existing Exim/AID framework, as the administration has suggested? The administration argues that placing the program in the Treasury Department would strengthen its negotiating leverage. But would we be undercutting the credibility of a new program by turning it over to the Department that has, until now, consistently opposed mixed credits legislation? Or should the program utilize

the existing Exim/AID framework, that has already received congressional support, as Congresswoman Johnson has proposed? Or finally, should the program rely solely on Exim, not retaining the AID role?

The second major issue is whether the bill should call for the appropriation of new funds. All three bills call for new appropriations. Clearly, the major argument against these appropriations is the current budgetary constraints. It could be difficult to push for a supplemental appropriation with our soaring budget deficit. The administration proposal calls for $300 million for the "war chest." The administration claims that this can support $1 billion in mixed credits and form the basis for extending offers of $2 billion to $3 billion. The Johnson proposal calls for $250 million for Exim and $250 million for AID, and finally, the Lundine proposal calls for $250 million for Exim. The alternative would be to direct Exim to grant mixed credits solely out of its regular direct loan budget.

A related concern is the duration of the program. The administration's program expires September 30, 1987, unless the President terminates it earlier because of sufficient progress in negotiations. Mr. Cornell argued at our last hearing that it won't take long to negotiate an end to mixed credits once others see we are serious. But should we legislate in advance a limited duration? Or should we, as the Johnson proposal suggests have the program sunset when an agreement is negotiated?

The final major issue to confront is our strategy for a tied-aid credit program. That is, should our approach be offensive or defensive? Should we selectively target countries and markets, or adopt a matching, across-the-board strategy? The administration proposal is purely offensive and targeted in nature. Proponents argue that this approach would maximize the pain inflicted on those countries we want to influence, and not degenerate into a quasi-entitlement program for U.S. exporters, but would that not leave our exporters helpless in the face of mixed credits competition from other countries?

The Johnson proposal calls for a defensive program with across-the-board application. While this approach would utilize the existing framework, it would have certain built-in limitations. It could conflict with AID's primary mandate to foster economic development. Moreover, it is certainly questionable whether, considering current budgetary constraints, the United States would be capable of mounting an effective defensive strategy truly matching across-the-board tied-aid credits. Finally, the Lundine proposal calls for a program combining offense and defensive measures, with targeted application and matching across the board.

We will first hear from the Honorable Don Bonker, chairman of the Subcommittee on International Economic Policy and Trade of the Foreign Affairs Committee. Then we will hear from a panel consisting of representatives from the exporting community and private witnesses. Willard Berry, on behalf of the Coalition for Employment Through Exports, Warren Hollingshead, on behalf of the National Foreign Trade Council, Dr. Rachel McCulloch, professor of economics at the University of Wisconsin, and member of the President's Commission on Industrial Competitiveness, and Stephen Sohn, on behalf of the chamber of commerce.

First I'd like to welcome our very distinguished colleague, Congressman Don Bonker, who is also chairman of our export task force.

Mr. BONKER. The Democratic trade task force.

Chairman NEAL. Don, you're certainly welcome this morning. Thank you very much. You are a long-time expert in this field. We are grateful to have you with us.

Excuse me. Are there other Members who would like to make statements?

I recognize Mr. Leach.

Mr. LEACH. Welcome, Mr. Bonker.

Let me make it clear that the chairman of the Democratic task force is also, I'm sure, carrying the Republican trade banner as well. I appreciate his leadership on these issues.

I would just like to reference the fact that the main debate that has occurred in the subcommittee in the last year relates to the I-Match Program, whether it is worthwhile or not, and there is a mixed review of that particular proposal. I would stress that this particular proposal for mixed credits may well strengthen the case for I-Match, because it provides a much-needed backstop where I-Match is weakest. There are a number of proposals that have been put before this committee. My own sense is that we might well want to combine some of the approaches in that regard.

I am very pleased, particularly, that Mr. Bonker is here today to present his perspective, as well as that of the private sector. Thank you, Mr. Chairman.

Chairman NEAL. Let me say that I did not cosponsor any of the bills, wanting to keep an open mind on the subject. So if it is necessary to combine the best aspects of all of them we can do so.

Mr. FAUNTROY. I have no opening comments except to welcome my colleague, Mr. Bonker.

Chairman NEAL. Don, we will put your entire statement into the record, without objection. If you will please proceed.

STATEMENT OF HON. DON BONKER, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF WASHINGTON

Mr. BONKER. Mr. Chairman, I am pleased to appear before this distinguished panel and recognize your long expertise and responsibility for overseeing Eximbank and Treasury Department policies, and I will offer my comprehensive statement for the record.

Mr. Chairman, as you know, our subcommittee is also conducting hearings on this issue, and I believe it is timely, given the trade deficit and the ongoing debate on how we're going to bring that deficit down and reclaim America's competitive position. Mixed credits happens to be one of those issues that has a lot to do with both unfair trade practices, because many countries are engaging in this activity, which is really contrary to international trade, and with export promotion.

It is one issue, I think, where Democrats and Republicans alike can come together and work cooperatively with the administration to do something at last to help American exporters.

As our respective committees attempt to sort out some of the issues that are relevant to mixed credits, I think that we can iden-

tify at least three areas, and I am hopeful that our subcommittees can work together as we prepare a legislative proposal for the floor.

First, is the purpose of the program. I think what's been overlooked in the President's announcement on September 23 of his mixed credit program is the fact that Congress had already enacted in 1983 the Trade and Development Enhancement Act which established a mixed credit program. True, there was no money appropriated to carry out an effective program, but nonetheless, a mechanism was put into place. The law provides for export promotion. It says that it is the purpose of this act to expand employment and economic growth in the United States and to expand exports to markets of the developing world.

It also says that we ought to neutralize the predatory financing engaged in by other nations and encourage foreign governments to enter into agreements through OECD negotiations that would put an end to this practice.

When President Reagan made his announcement, he left the impression that the purpose of his proposal was export promotion. I quote from his statement of September 23, in which the President said "This program is designed to enable U.S. exporters to compete effectively in third country markets." When Mr. Draper appeared before our subcommittee a few weeks ago, he stated that the purpose of the $300 million grant money was for negotiating purposes only. He went on to say that the program was not intended to help American exporters.

So I think the Congress, through our respective committees, will have to provide a proper focus or purpose for this program. Is it to be export promotion, or is it to be a means of enhancing our negotiating position at OECD, to put an end to the practice? Second, who should administer the program?

When Congress established the mixed credits program in 1983, we fully intended that this would be a program jointly administered by the Export-Import Bank and AID through an interagency committee. This would draw upon the two resources of those respective departments to maximize our leverage, if we were going to effectively combat mixed credit activity by other countries.

The administration's bill more or less eliminates the act that we put into place in 1983 and merely provides for grant money to be administered by the Treasury Department.

There are two problems with that. No. 1, it takes out of the program at least one agency that is really properly equipped to deal with export promotion, and that is the Eximbank. The administration will say that the Eximbank is involved, but the language says that the Treasury Department will set the policy and administer the program. The only reference to the Eximbank is by way of referring to commercial lending institutions. The language in the White House proposal says "the Eximbank or commercial lending institutions," and I think that the business community is going to be reluctant to approach the Treasury Department for help with their export competition abroad.

Treasury has been more preoccupied with international monetary policy and has not been in the business of export promotion or helping U.S. businessmen. I think we would greatly confuse the

process if we were to have the traditional Exim programs administered by that agency and set up this grant money that would go into Treasury.

So I am hopeful that this subcommittee will work in a way to complement existing law, which has really not had a chance to go into operation, rather than abandon what Congress has already established and just put the grant money in the hands of the Treasury Department.

Last, is the amount. The administration is asking for $300 million, and Bill Draper will talk about the leveraging of that money. The Nancy Johnson bill—H.R. 3296—which I am supporting, calls for $500 million, and I might add that the Democratic task force report that was released last week endorses a mixed credit program of $500 million. In 1983, the CBO estimated that we would need $300 million to effectively carry out a mixed credit program. Since that time, the value of mixed credit offers has doubled, and I don't think we are going to be a serious threat to the Canadians, to the French and to others who engage in this practice if we only have a mere $300 million.

So I am hopeful that the committee will up the ante a little bit. It doesn't mean that we need to use all that money, but that we can demonstrate to the others at OECD that we're serious.

Mr. Chairman, I want to go over just very briefly the historical development of AID's role in administering this program. It was the intent of the Congress in 1983 to draw upon both the Eximbank program and the AID program. When Mr. McPherson testified before our committee in 1984, he said that he was not going to make available the economic support funds that Congress had required be allocated to finance a tied aid credit program. Instead, he said to the committee, that he would make available for tied aid credits, approximately $200 million, but it would come from the Commodity Import Program, the nations that are involved in that program.

That was a very narrow interpretation of congressional intent. As a result, Mr. McPherson and I had an exchange of letters throughout 1984. That resulted in his commitment to making mixed credit available in every country that is eligible to receive ESF money. That ESF program amounts to about $3.5 billion out of a $12 billion aid program.

I should remind the members that we are not talking about development assistance. About a third of our foreign aid now goes in the form of economic support funds. Mr. Leach serves on the Foreign Affairs Committee and is familiar with all the programs. ESF is actually a cash commitment to many of these countries, 45 different countries.

What we've done is to make available for this mixed credit program the use of ESF money. But despite this commitment on behalf of Mr. McPherson, AID has participated in only two mixed credit offers in the last 18 months—Botswana and Egypt.

Earlier this year, I offered an amendment to the Foreign Assistance Act to transfer $50 million from the foreign military credit sales program over to a mixed aid credit program. Actually, the original amendment was for $100 million, but the administration

opposed it, and we ended up with a compromise of $50 million to put into a mixed credit program.

The administration opposed that amendment, not surprisingly, but at least we have got some seed money in AID.

I would hope that when Congress acts upon this proposal that we would help replenish that fund by allocating equally between Exim and AID the $300 million or $500 million, whatever we see fit to enact. That would go into a mixed credit program.

It is the AID component of Government that is out there in the field; that is familiar with foreign mixed credit programs that are being advanced by other countries; and that has the necessary resources to help coordinate and implement an effective U.S. mixed aid program.

Mr. Chairman, that concludes my summary statement.

Since both committees have jurisdiction on this matter, I am hopeful that at the staff level we can work together on a bipartisan basis to put forth an effective mixed aid credit program that will be acceptable to the administration and will demonstrate to American exporters and the American people that Congress is acting responsibly and expeditiously to bring down that trade deficit.

[The prepared statement of Mr. Bonker follows:]

PREPARED STATEMENT OF REPRESENTATIVE DON BONKER
before the
SUBCOMMITTEE ON INTERNATIONAL FINANCE, TRADE AND MONETARY POLICY
COMMITTEE ON BANKING, FINANCE AND URBAN AFFAIRS
U.S. HOUSE OF REPRESENTATIVES
OCTOBER 23, 1985

Chairman Neal and Members of the Subcommittee, I appreciate the opportunity to testify this morning on the issue of mixed credits. Your Committee has played and continues to play the key role on this subject. I commend you, Mr. Chairman, for conducting these timely hearings on pending legislative proposals to strengthen our mixed credits program.

The Foreign Affairs Subcommittee on International Economic Policy and Trade, which I have the honor to chair, has also been active in this area. In early 1984, the Subcommittee held oversight hearings on AID's implementation of the mixed credits program mandated by the 1983 Trade and Development Enhancement Act. Earlier this year, I offered an amendment to the FY 1986/87 Foreign Assistance Authorization bill (which has been enacted as P.L. 99-83) which earmarks $50 million in each of these fiscal years in Economic Support Funds (ESF) to support AID's participation in our mixed credits program. Finally, the Subcommittee has held two hearings this month on mixed credits, and it is my intention to move quickly to mark-up on H.R. 3296, which I have co-sponsored with Mrs. Johnson.

Mr. Chairman, your Subcommittee is well aware of the fierce competition our exporters face daily in the global marketplace and of the need for an effective U.S. mixed credits program. With your permission, I will not dwell on the rationale for the program, but will confine my remarks to the various legislative proposals pending before this Committee. In the course of my testimony I hope to respond to questions raised at your first hearing - namely, who should control the funds; what the source and amount should be; what role should AID play ; and what criteria, if any, should govern the use of the funds.

Before turning to these points, it might be useful to review briefly the history of mixed credits. Developed by France in the late 1950's, the mixing or blending of commercial or official export credits with concessional foreign assistance credits was intended to "sweeten" a financing package sufficiently to insure the acquisition of the sale for the country's exporters. By the early 1970's, a number of other OECD nations (Japan, West Germany, Switzerland, and the

U.K.) had joined France in the mixed credits game. As a result of a dramatic jum in this predatory financing practice in the 1978-1981 period (from $969 million total reported in 1978 to more than $2.6 billion total reported in 1981 - the total combines commercial and concessional financing), the U.S. through the OECD negotiations on officially supported export credits began to press for limits on their use. Progress in the negotiations was, however, slow at best.

Two important events occurred in the fall of 1983. In October, Congress established -- over Administration objections -- defensive mixed credits progra in Exim and AID in an effort to spur the negotiations along. The following mon the U.S. gained the agreement of 22 other OECD nations on the general "Export Credit Arrangement" and moved mixed credits to the top of its OECD export cred negotiating agenda. What has been the Administration's response to the Congressional mixed credits mandate?

THE ADMINISTRATION RECORD ON MIXED CREDITS

In testimony given in January 1984 on implementation of the 1983 Trade a Development Enhancement Act, the Treasury representative stated:

> Where necessary to protect U.S. trade interests, we will counter foreign mixed credits with subsidies of our own... We do not anticipate a need for further legislation, since <u>current USAID and Exim-bank resources are fully adequate</u> to deal with the present level of predatory mixed credits.

The AID Mixed Credits Coordinator said: "[we] will make available for progr approximately $200 million in roughly eight countries in addition to which allocated or set aside approximately $75 million in Egypt." He added:

> First, the <u>U.S. Government should provide mixed credits selectively and only to match foreign mixed credits</u>. <u>U.S. Government initiations of mixed credits would prejudice our negotiating position</u> and would, in effect, appear to be engaging in the same trade distortive practices to which we object on the part of others [emphasis added].

This Committee needs no reminder that at about the same time, the Administration was seeking a significant cut in Exim Bank funding. This followed by the Administration's attempt to eliminate Exim's direct cred -- which would support U.S. mixed credits -- and replace it with the lim technically-flawed "I-Match" proposal. AID gave the mixed credits progr similarly cool reception.

Six months after enactment, the AID Administrator finally committed the Agency (consistent with Congressional intent) to make mixed credits available in any ESF recipient nation, not just Commodity Import Program nations. This expanded the number of eligible nations from 8 to more than 40. Although the Administration had said that available resources were "fully adequate" to deal with foreign mixed credit competition, it continued to argue that the program was hampered by insufficient funds. In May of this year, again over strong Administration objection, the Foreign Affairs Committee and subsequently the Congress agreed to set aside $50 million in each of Fiscal Years 1986 and 1987 in ESF monies to fund the AID mixed credits program.

Finally, Mr. Chairman, one need only look at the bottom line to determine the Administration's commitment to meeting the Congressional directive on mixed credits. Since enactment of the mandate (October 1983), Exim has, according to its own figures, matched some ten mixed credits on its own, and only two jointly with AID. During roughly the same time frame (January 1984-June 1985), our competitors notified the OECD of 478 such offers. Even accounting for multiple offers on the same project, the Administration should receive a failing grade.

THE ADMINISTRATION'S "WAR CHEST" PROPOSAL - H.R. 3515

Set against this dismal record, the President's announcement of a $300 million mixed credits "war chest" was shocking. I commend the President for his about-face, and applaud Rep. Wylie and the Members of this Committee for introducing the President's suggested legislation. We all share the same goal: the elimination of this costly, trade distorting practice. A major problem with the President's approach, however, is that in the rush to embrace the mixed credits issue, the Administration has overlooked the potential for effectively using the existing program. It should come as no surprise to the Administration that some of us in Congress are frankly skeptical about giving sole control over the new program to the one agency which has historically been the most vocal opponent of a U.S. mixed credits program and whose thinking has often been less export-oriented than some other Government agencies. Let me add one word of caution to our OECD partners and particularly to the offending nations: they should not misinterpret our current debate over the proper approach in dealing with their abuse of export credits. Rather they should be on notice that we mean business and that the Congress and Executive are working together to come up with the best and quickest way of putting an end to their game.

The direction contained in H.R. 3515 departs from current law in several notable ways. First, as I said above, it would give Treasury sole responsibility for the program. In so doing, the bill not only completely eliminates any AID participation in the program, but relegates Exim to a secondary role. Termination of the AID component necessarily eliminates the $100 million already earmarked over the next two years to counter foreign mixed credits.

Second, it is an offensive, not defensive program. This changes the fundamental objective of the program. Contrary to the President's September 23 assertion that this is an "export promotion" tool, it is no such thing. It is solely a negotiating tool. Administration testimony before both our Subcommittees indicated that although the President billed the "war chest" as an export promotion device, it is NOT intended to help American exporters. Let me emphasize that the present program is designed to be a negotiating tool and to help our exporters meet and beat subsidized competition until the negotiations succeed.

Third, H.R. 3515 would authorize a new $300 million appropriation for the "war chest," but without any of the conditions or criteria contained in current law. While this figure is in the ballpark of the 1983 CBO estimate for a defensive U.S. mixed credits program, it hardly constitutes a credible "war chest" now in light of a doubling in the dollar value of mixed credit offers since that time. Moreover, the absence of restrictions on the use of the fund poses a number of hazards. Which companies, for example, are eligible for financing? Would companies which are not facing foreign mixed credits competition be eligible? Would the same industries be targeted as those targeted now by the most serious offending nations? Could one or two companies expect to receive the benefits of the entire $300 million fund? Could the impact of this particular amount be doubled or tripled if the money were used only to finance the difference between the commercial and concessional rates, as proposed in Mr. Lundine's bill, H.R. 1857? If the Committee intends to move this measure, these matters should be resolved in order to avoid charges that the money is nothing more than a Treasury "slush fund."

H.R. 3296 - THE COMPETITIVE AMERICAN EXPORTS ACT

As the Committee studies the various legislative proposals, I would urge that serious consideration be given to H.R. 3296. H.R. 3296 and H.R. 3515 aim at the same target, but the Johnson bill goes beyond being a mere negotiating tool: it seeks to help American exporters in the process. In my view the current, defensive program set up in 1983 has not failed, as the Administrtion would have

us believe. With only some dozen counter offers, I would argue the system has hardly been tested. The present program cannot be dismissed for lack of funding (the Administration argued in 1984 funds were "fully adequate"). If the existing program has not worked, it is because the Administration has lacked the commitment and will to use it.

Here are some of the reasons why I believe H.R. 3296 provides a more effective way to bring the mixed credits war to an end.

1. A defensive program can win business for U.S. exporters. If the American firm is the most competitive, a U.S. mixed credit can neutralize or beat the foreign subsidy and should win the business for our firm. If the American firm is not the most competitive, should the U.S. Government be providing a subsidy? The purpose of a mixed credit program is at least to neutralize the opposition's subsidy, and win contracts for competitive American firms. The purpose should not be to subsidize any bid that comes along simply because it is a targeted market for French, Belgian or Italian mixed credits. Canada, Japan, Germany and other nations use mixed credits to steal business away from competitive U.S. firms, and firms in this category should be eligible for assistance, too.

2. A defensive program, if used aggressively, should spur the OECD negotiations to a successful conclusion. If our program effectively neutralizes the foreign subsidy (either by matching or beating the subsidy) and wins the business, it is unlikely France and other obstinate OECD nations would continue this expensive practice. The point here is to win the business for the American bidder. Using the current program aggressively should produce the same negotiating results as an offensive program, without the pitfalls of having to initiate an offer.

3. Exporters are familiar with the current system. Under the Administration's proposal exporters would have to familiarize themselves with a new bureaucratic maze. The present administrators have project evaluation expertise and are more knowledgeable about the program, which enhances the credibility of the program.

4. It retains existing, general conditions on eligibility and use of funds. Present law requires that there be reasonable proof of a foreign mixed credit offer and a U.S. mixed credit is necessary to make the U.S. exporter competitive. In other words, an American firm can't just show up at Exim's or AID's door demanding a mixed credit. In the absence of any statutory or administrative criteria (which the Administration has so far refused to provide) governing the use of the $300 million, an American firm would not necessarily have to be the most competitive or lowest bidder on a project or be facing a foreign mixed credit

in order to qualify. How would the program be judged if, in an almost implausible scenario, a large part of the "war chest" was awarded to companies which contribute significant amounts to candidates of the President's party?

5. H.R. 3296 streamlines the current application review procedure. The bill ensures that an applicant will receive a preliminary commitment decision within 10 days and a final decision on a mixed credit application within 30 days. A timely response to foreign mixed credit offers is mandatory.

6. H.R. 3296 calls for a $500 million appropriation split equally between Exim and AID. The CBO estimated in 1983 an effective U.S. defensive mixed credits program would cost between $150-$300 million. Since 1983, the dollar value of mixed credit offers has almost doubled, from $3.3 billion to $6.5 billion. A $500 million starting appropriation is more realistic if we are serious about ending this practice.

7. The intent of H.R. 3296 is to "sunset" the mixed credits program on the successful conclusion of OECD negotiations. The purpose of the U.S. program is to negotiate an end to this abusive practice. The date of the Administration's sunset is arbitrary - September 30, 1987 - and likely to cause the French and other "problem" countries to "wait us out." More importantly, if the Congress were to adopt the President's proposal and negotiations did not succeed by that date, we would find ourselves not only without $300 million and no agreement, but without any defensive program as a fall-back.

WHY RETAIN A ROLE FOR AID?

One of the key changes proposed in the Administration bill is the elimination of AID's role in the mixed credits program. In my view, this matter is more than a petty "turf fight," as some would allege. It goes to the heart of the program and the Administration's commitment and willingness to act forcefully against foreign export credit subsidies.

By definition, a mixed, or tied aid credit is a blend, or linking of foreign aid to commercial credits. While public support for our foreign aid program continues to be weak, we should be exploring ways to make a more direct connection in our foreign assistance programs between our strategic, political and economic interests.

The Administration argues that a number of AID recipient nations simply refuse U.S. credits mixed with AID funds because they know they are budgeted to receive the money anyway. This problem has been addressed to some extent by my amendment earmarking additional ESF money -- above what had been budgeted in FY

1986/87 -- and would be resolved if a portion of a new appropriation for a "war chest" were to be placed in AID's mixed credits fund.

The Administration argues that our foreign assistance program is not intended to promote American exports. I would ask the Administration whether the PL 480 Food-for-Peace program (authorized at more than $1 billion in FY '86) promotes American agricultural commodity exports? I would ask whether the Trade and Development Program (an AID affiliate authorized at some $20 million in FY '86) promotes American exports through support for feasibility studies? I would ask whether the Overseas Private Investment Corporation (another AID affiliate which insures about $1 billion in U.S. private investment in developing countries each year) promotes follow-on American exports? And, I would ask whether AID's Private Enterprise Bureau, which this Administration created and which oversees a $60 million program, promotes U.S. exports through closer ties between the American private sector and its fledgling counterparts in many developing nations?

Perhaps most misleading, the Administration insists on portraying AID's funding for mixed credits as a direct drain on scarce development resources. AID's mixed credits program, both before and now under the earmarking, is funded through the Economic Support Fund NOT the Development Assistance account. ESF, set up 34 years ago, has undergone many title changes, but its purpose has always been to support activities considered ineligible or inappropriate for funding under other accounts. Its principal purpose has NEVER been to assist humanitarian or development programs.

A recent CRS study on ESF found that an increasing proportion of ESF is being disbursed on a cash transfer basis. This means the recipient has no obligation to purchase American goods or services. In FY 1984, $1.6 billion (or 32% of the total) in ESF was in the form of cash transfers; in FY 1985 $3.5 billion (or 66.9% of the total) was in cash transfers; and in FY 1986, $3.3 billion (or 65.8% of the total) will be cash transfers. The Administration requested ESF funding in these fiscal years for 46 countries, including some of the largest mixed credits recipients: Thailand, Philippines, Cyprus, Egypt and Turkey. I fail to see the Administration's rationale for objecting to a portion of the huge ESF cash transfers being used to counter mixed credit competition in these nations.

CONCLUSION

Mr. Chairman, the Administration and many in Congress are agreed now on the need both to do more and to act expeditiously in this area. We should, however, avoid hasty action. The principal choices facing us are: whether to go with an

offensive or defensive program, or a combination of both; whether Treasury, or Exim and AID or a combination of all three should be responsible for administering the program; whether existing appropriations are sufficient or new appropriations are needed, and what funding level will be most effective; and when the program should sunset.

In my view the most effective approach is to build upon the solid foundation of the 1983 Act. This would entail streamlining the process, authorizing additional appropriations, and most importantly using the authority aggressively. The elements would include the following:

-- Retaining the existing defensive orientation of the program.

-- Retaining the institutional mechanisms in Exim and AID.

-- Replacing the current statutory requirement for unanimous NAC approval of each mixed credit with simple majority approval by a new Mixed Credit Coordination Board (proposed in H.R. 3296).

-- Streamlining the review procedure by requiring the Board to decide within 10 days on preliminary commitment applications and within 30 days on mixed credit applications.

-- Adding a definition of "eligible U.S. business or exporter," such as that contained in the OPIC statute, so that majority foreign-owned firms would be ineligible.

-- Authorizing a special fund of at least $500 million to be split between Exim and AID for use as grant money, or, as suggested in Mr. Lundine's bill to finance the difference between the concessional and commercial credit.

-- Adopting a sunset provision tied to the successful conclusion of OECD negotiations and a certification by the Treasury Secretary that the parties to the agreement are honoring their commitments under it.

Finally, if the Committee chooses to act on H.R. 3515, I would strongly recommend authorizing Treasury to use not more than one-half of the new funds appropriated, say $150-$200 million, for an offensive program and retaining the remainder for the defensive component. In addition, I would suggest that Treasury be authorized to initiate blended credit offers only under the following conditions:

-- there is a reasonable assurance the offer will directly contribute to U.S. negotiating objectives;

-- there is a reasonable assurance that the bid of the U.S. firm is competitive;

-- no single company would be eligible for more than a specified number of Treasury-initiated blended credit offers in each year, and the amount of the grant element should not exceed, for example 15% of the "war chest" resources available at any one time; and

-- sectors in global structural oversupply would be ineligible.

Mr. Chairman, I would again like to express my appreciation for the opportunity to testify before your distinguished panel, and would welcome any questions the Members of the Subcommittee might have.

Chairman NEAL. Thank you very much, Don.

Just briefly, I can't tell you what the final will of the subcommittee and the full Banking Committee will be. From my own point of view, I think we ought to use this as a tool to fight the mixed credits offered by other countries so that they stop offering them.

In other words, I don't think we should be setting up a big slush fund here for exporters or anyone else. I don't see it as for exporters myself. I see it as a tool to create a level playing field so our exporters can compete in a fair environment on the basis of price and service and quality, and so on.

There again I think it is a strongly held point of view because I can see this thing turning into an enormous drain on the Treasury if we are just out there engaging in some kind of other foreign aid program without this clear purpose and goal in mind.

And I just have one question for you. Lately, in reading about how Mr. Pearson spends his time, it seems he is interested in promoting right wing causes instead of doing what I would think that that agency ought to be involved in. I am wondering how much experience they really do have in this area.

You mentioned that they had made a couple of loans to Botswana and Egypt, I think you said. Was that in response to a French mixed credit offer? Was it aid or was it an attempt to fight mixed credits on the part of others?

Mr. BONKER. I think it was really an attempt to demonstrate that they are doing at least something.

Chairman NEAL. What in?

Mr. BONKER. The Egypt mixed credit program has been around for some time. I think it may have occurred regardless of what Congress had intended. It was the intention of the administration to do that in any case.

The *Botswana* case was in response to a Canadian mixed credit offer.

Chairman NEAL. So it was facing a competitive situation. What was the grant element of it? Was it over 25 percent?

Mr. BONKER. Yes.

Chairman NEAL. Thank you again for being here with us.

Mr. BONKER. I might add, Mr. Chairman, that last year France financed $1.7 billion in mixed credit offers, Germany $1.1 billion, and the United Kingdom $820 million, and I think Canada was up in that range, too.

So for the United States, given our size and our presence in the world economy, $300 million isn't going to be very much. That is why we need to leverage that money effectively.

Chairman NEAL. The figures you use are the level of exports or the level of mixed credits?

Mr. BONKER. They are mixed credit offers reported to the OECD.

Chairman NEAL. Thank you very much.

Mr. Leach?

Mr. LEACH. Mr. Chairman, I just have two comments.

First, I think Mr. Bonker makes an excellent point when he looks at the institutional issues. If we are going to have a program that does well, it does matter who has the final say in operating it. The most professional government institution that is export oriented is the Eximbank.

Second, listening to Mr. Bonker, you will see a reflection of something that I think is very profound. That is the repository in this Congress of professional expertise on a very central issue.

It is my own sense that frequently administrations think they are starting from ground zero and can come up with ideas and proposals without a full understanding of what they themselves have been part of. The testimony that was put in the record puts this issue in historical perspective, and I think reflects very well on the Congress. It ought to be looked at very carefully by the administration.

I would finally say, though, with regard to the dollar figures, I think all of us would hope that they would be larger. But the fact of the matter is, like everything else that is happening in Government, I don't expect to get anything above the $300 million level. That is something that is just a fact of life.

But I, personally, am very appreciative of this testimony, and I thank you.

Chairman NEAL. Mr. Fauntroy?

Mr. FAUNTROY. No questions, Mr. Chairman.

Chairman NEAL. Mr. Parris?

Mr. PARRIS. Thank you, Mr. Chairman.

First of all, let me associate myself with the remarks of the chairman just a moment ago in his categorization of the fundamental thrust of this proposal to oppose this insidious practice.

I was one of those that was vaguely fond of the I-Match Program a couple of years ago, and I will, frankly, concede that we are now 2 years further in the history and basically nothing has changed in 2 years.

So perhaps we need to take a new look at this situation, and the problem essentially is that it is extremely difficult, as we all know, to establish the continuity of the relationship between these distorted practices that we all abhor. The question is what do we do?

And I thank you, Don, for your suggestions here this morning, along with my colleagues.

Let me just ask one or two very quick questions.

As you point out, some of the nations that you have outlined here—France, Canada, Japan, West Germany, the United Kingdom, et cetera—are very much involved, heavily involved in these practices.

Is there anything that you know about in the proposed legislative vehicles of one kind or another that would prohibit these nations from simply depleting our $300 million in a kind of bidding war, if you will, early on and as soon as we are out of money the poker game continues to be played? How can we protect ourselves, or can we, against that kind of scenario?

Mr. BONKER. Well, Mr. Parris, I think that is the challenge for us as policymakers. Specifically, before the Eximbank, we were able to at least moderate these predatory practices on credit subsidies involving aircraft sales. They have now mutually agreed to limits on rates.

But I don't think that we are going to succeed in putting an end to this practice or even moderating its use if we don't enact this kind of a program.

This is a fiercely competitive world economy. The French and others have demonstrated that they can be economic mercenaries at times. We are trying to apply our hands off, free trade philosophy in a global economy that doesn't play by those rules.

And you will hear from industry representatives who are frustrated when they are trying to compete against their counterparts in other countries and then at the last minute have the Government of Japan or the Government of France step in with some icing to go on the contract and they lose it. Unless we are able and equipped to combat that activity, we are going to lose major contracts.

Sometimes it is like an aircraft sale. Once you have lost a footing in a potential market, it is hard to reclaim it. I don't think the businessmen who will be testifying really like to see this kind of support, affirming what the chairman has stated, but we have no choice. If we are going to put an end to the practice, we have got to match what other countries are doing.

This is still a modest amount. Mr. Draper has pointed out that it can be leveraged up to a billion dollars, given the present resources of the Eximbank.

Mr. PARRIS. Just one final, very quick question.

On page 4 of your testimony, you make the point that the President, the proposal from the administration builds a war chest "as an export promotion device." It is not intended to help American exporters.

The administration's $300 million war chest would not be inimical to exports, would it?

I am not sure I understand the point you are trying to make in that statement.

Mr. BONKER. I referred to that when I said that these committees would have to sort out and properly define the purpose of this program.

When the President made his announcement on September 23 about his trade offensive, he was quite explicit. He said the program is designed to enable U.S. exports to compete effectively in Third World markets.

When Mr. Draper appeared before our committee, he said this is not to help the exporters but only to enhance our negotiating position at OECD to bring an end to the practice.

I think a lot depends on how Treasury intends to administer this program. Based on the testimony before our subcommittee, I get the impression that they are not going to match mixed credit offers in other countries but they are simply going to use this money to intimidate France and other countries to put an end to the practice.

Whether or not that strategy works remains to be seen, but I think the committees are going to have to better understand the program thrust so we know and we can communicate to the administration our orientation of a mixed credit program.

It is a good question.

Mr. PARRIS. Maybe we ought to just declare victory over adversity, that kind of rhetoric, and get on with it.

Mr. BONKER. Well, we have done that before. [Laughter.]

Mr. PARRIS. Thank you, Mr. Chairman.

Chairman NEAL. Mr. Lundine.

Mr. LUNDINE. No questions.

Chairman NEAL. Thank you very much for coming here this morning. We will stay in close touch with developments.

At this time we would like to invite to the table our panel, consisting of Willard Berry, on behalf of the Coalition for Employment Through Exports; Warren Hollinshead, on behalf of the National Foreign Trade Council; Dr. Rachel McCulloch, professor of economics at the University of Wisconsin; and Stephen Sohn, on behalf of the chamber of commerce.

Without objection, we will put your entire statements into the record.

In fact, I would request that you all try to summarize your remarks so that we might have some time for questions.

Let me just give you some idea of the time constraints. It is now 10 till 11. I have a feeling we can be interrupted by votes, which will take 10 or 15 minutes, and we probably ought to finish up the hearings about noon.

So if you could summarize, it would be a great help.

Mr. Berry, we would like to start with you.

STATEMENT OF WILLARD BERRY, EXECUTIVE DIRECTOR, COALITION FOR EMPLOYMENT THROUGH EXPORTS

Mr. BERRY. Thank you, Mr. Chairman. I will try to summarize my remarks and give the emphasis really to our recommendations on the legislation.

The Coalition for Employment Through Exports is comprised of 55 large and small businesses, 14 labor unions, and 12 governors. Through the four associations we have in our membership, we have about a thousand small exporters involved in a common concern about competitive export finance. That is the issue around which our organization was assembled.

I would like to compliment the chairman and members of this subcommittee not only for having dealt with and faced the question and anticipated the problems of mixed credits sometime ago, but I believe the idea of a war chest has been long a familiar topic with members of this group.

The way my testimony will go is, first of all, I would like to say something about the nature of the problem as far as we can see, the dimensions of it, some kind of the estimate of the damage this has caused, and then make some recommendations.

It is difficult actually to say how much mixed credits activity there is in the system. The official OECD figures do show that there has been a dramatic increase.

In 1982, there was $3.2 billion of reported mixed credits in the system. That was a doubling over 1980.

In 1984, there was $6.495 billion reported in this system, and this year up through June, calendar 1985, it is $3.5 million.

If we look at the number of countries, we see in 1980 there were a handful of countries participating in this kind of financing. Now there are close to 20, including countries like Argentina and Brazil.

It is not easy to assess what impact this does have on our competitiveness, how many overseas markets we have lost, what we

have lost in the way of follow-on business, business transferred to foreign subsidiaries, technological leadership, et cetera.

Because of the insistence for a long period of time by the administration that this was not a problem, we did try to poll our membership to see exactly what kind of effect it had on our companies.

Some of our companies are not affected. The aircraft industry is not affected. There is now a nuclear agreement, I believe, which restricts mixed credits in those sales.

However, we did have 20 companies which responded. For 75 percent of those companies it was a very important issue.

More than one-half of those companies never even went to the Export-Import Bank because of their belief or perception that there was no credible program within the Eximbank or within the Government or that it was basically uncompetitive.

More than 90 percent of the companies not requesting U.S. assistance did try to supply goods from overseas where competitive mixed credit programs were available.

During the 20-month period which we covered in our survey, there were 28 separate projects for which U.S. companies did try to get overseas support with a total amount involved of $7 billion.

The conclusions that we made from that study are, first of all, that while this mixed credit practice was expanding, it seemed to be displacing other more usual forms of official finance and that the Federal programs were not responding to these changed characteristics of international competition.

If we look at what the Federal Government did do, they have responded since the beginning of 1984 with 211 mixed credit cases. AID participated in two of those responses. The Government has actually extended credit in two instances, none involving AID. It involved approximately $52 million. And in contrast during that same period of time, there were 667 mixed credit cases reported to the OECD with a total value of $10 billion.

The other conclusion was, you know, that obviously there was a real negotiating problem and a real crisis in, I think, the whole system we have in agreements governing export finance, because of the lack of control we are able to exert over this program.

We look at the President's proposal as important. For the first time the administration is giving the mixed credit problem the priority it deserves in calling for the establishment of a $300 million fund. We do conceive of this primarily as a negotiating tool, and that is our primary goal, which is the same as the chairman of the committee's.

We do have a number of concerns with the legislation, which I will express at this time.

First of all, we do consider this as an important negotiating tool, and it should be used aggressively to maximize the position of our chief negotiator, the Secretary of the Treasury. Because of the extensive use of mixed credits and this astronomical growth, however, we don't feel that this negotiating program should abandon those exporters who do face on a continuing basis this kind of competition from overseas.

Our mixed credit programs under the current statute should be enhanced rather than terminated, as they would in the administration's bill.

Three, besides guaranteeing our exports the support they need in dealing with current competitive pressure, the strengthening of the existing defensive program is critical to the success of any war chest. The programs in Eximbank and U.S. AID strengthen the U.S. Government's negotiating position through added flexibility. Similarly, an offensive program requires accurate and timely market information. The marketing intelligence Treasury needs for targeting war chest activities depends upon private sector cooperation, which will be available only if U.S. companies are assured an effective retaliatory program. Otherwise, companies may be forced to source certain sales from overseas as they have done in the past.

Fourth, the legislation establishing the war chest fund should in no way erode the traditional authority of the Eximbank or divert resources from the Bank's direct credit authority.

Five, language should be written into any war chest bills so that Eximbank maintains its current statutory authority to extend mixed credits out of its own resources.

Sixth, legislation must make it clear that the war chest is supported by new money. This is important to Eximbank's institutional integrity to an effective trade policy and to a truly enhanced negotiating posture.

Seventh, under no circumstances should AID's ability to participate in the mixed credit response be diminished. It is important that the Congress' efforts to assure AID involvement in responding to mixed credit continue. In fact, a reevaluation of U.S. AID operations as they compare to those of sister institutions overseas may be in order, if a long run solution to mixed credits is to be achieved.

CEE and its members are pleased with the efforts this body has given to resolving the mixed credit problem. It seems, because of the efforts in this committee and other committees and the initiative now on the part of the administration, that there is a basis for a consensus and for some expeditious legislative action on this issue.

Thank you.

[The prepared statement of Mr. Berry follows:]

Statement of Willard M. Berry,

Executive Director, Coalition for Employment Through Exports

I am Willard M. Berry, Executive Director of the Coalition for Employment Through Exports, Inc. (CEE). CEE is composed of 55 large and small business organizations, 14 labor unions and 12 governors. Through the four trade associations in our membership, CEE represents nearly 1,000 small businesses actively involved in exporting. A list of our membership is attached.

Our coalition appreciates the opportunity to appear here today. It was three and one-half years ago that our group was formed. The common bond of our diverse membership is a commitment to a strong and competitive Export-Import Bank. We have worked hard to assure that U.S. companies with the active assistance of the Eximbank are not driven from overseas markets by the financing practices of foreign governments.

CEE is pleased to appear before this subcommittee because of its concern with mixed credits. Chairman Neal and the members of this subcommittee recognized some time ago the damaging effects this kind of predatory financing has on U.S. jobs and industries and the obstacles these export subsidies pose to an open international trading system. Chairman Neal is to be commended for having formally made a number of important proposals (including a war chest,) to defend our exporters against foreign mixed credit practices.

We would like to take this opportunity today to put into the record our assessment of the dimensions of this problem and of the damage caused by past inaction of the administration. Since the President has recently directed the Secretary of the Treasury towork with the Congress on a mechanism to end mixed credit practices once and for all, we would also like to comment on the Administration's war chest proposal as well as the recent legislative proposals generated within the Congress.

There is no place inside the government or outside of it where one can find a conclusive statement of what proportion of current official export finance involves mixed credits. We do know that it is on the rise.

Official data do record an increase in the use of mixed credits. Mixed credit offers by foreign governments amounted to $3.2 billion in 1982. This figure represents a 50% increase over the amount reported in 1980. During the next two years (between 1982 and 1984) there was a doubling in the value of reported offers -- $6.495 billion in mixed credit support. The most recent data available show no decline -- with a reported $3.5 billion in mixed credit support.

Most officials in the U.S. government familiar with these data and the method of aggregating them would concede that the figures understate the problem.

O.E.C.D. data also show that more countries are getting into the mixed credits game. Only a handful of developed countries offered these subsidies in 1980. Presently, there are close to twenty countries, including Argentina and Brazil, indulging in this practice.

Only in the number of recipient countries is there no escalation. The number of countries receiving mixed credits has not increased because of the recent debt crisis and the targetting of mixed credit offers toward the most dynamic and credit-worthy markets.

While the increased use of mixed credits is clearly suggested by these data, the cost of this practice to the U.S. and to our international competitiveness is not easily documented. More reliable data and an improved O.E.C.D. reporting system could more accurately specify the amount of lost export sales. However, a list of lost sales could not tell you what is lost in terms of overseas markets, follow-on business, U.S. business transferred to foreign subsidiaries, technological leadership and the strength of our industrial base. Because mixed credit subsidies are not associated in this country as they are by our competitors with levels of domestic employment, we cannot easily calculate the cost of these subsidies in terms of lost jobs -- particularly in such export dependent sectors as power generation equipment, transportation systems, telecommunications products, and heavy machinery.

Last year our membership concluded, due to the dirth of information, that we must try to measure the impact of mixed credits on our member companies. A survey subsequently sent to our membership sought answers to several questions: how many of our member companies had confronted mixed credit competition; how important the business involving mixed credits was to the company's competitiveness; if they went to our government for support; and, if official U.S. support was unavailable, did they try to source the business from overseas.

Briefly, the findings of the CEE survey (with 20 of our companies responding) showed:

- mixed credits was a very important competitive issue for 75% of the respondants.
- more than one-half of all respondants did not even try to get official support to meet a foreign mixed credit offer. U.S. programs were perceived either as unavailable or uncompetitive.
- more than 90% of the companies not requesting U.S. assistance tried to supply goods from overseas where competitive mixed credit support was available.
- during a 20-month period CEE companies tried to get foreign mixed credit support for 28 separate overseas projects involving approximately $7 billion.

Mixed credit activity has obviously contributed to U.S. unemployment, with many jobs being transferred abroad. Considering the relatively small number of U.S. exporters involved in the CEE survey, these subsidies have also had a substantial impact on our country's merchandise trade deficit. The survey spoke to two issues of particular relevance to this hearing:

1. Mixed credits are beginning to displace more conventional forms of official export finance while responsible government

agencies are not only ignoring the changing characteristics of international competition but ignoring their mandate to respond to mixed credits as well. U.S. exports have suffered as a result.

The intent of the Congress to establish a credible defensive mixed credit program has obviously not been realized. Administration efforts have done little to keep U.S. exporters alive in the mixed credit war. Since the beginning of 1984 Eximbank has stood behind U.S. exporters in eleven mixed credit cases. These cases were selected by a set of narrow criteria designed to ensure an official system of limited responsiveness. U.S.A.I.D. participated on two occasions. The U.S. government has actually extended credit in two instances, committing approximately $52 million. During that same period of time 667 mixed credit cases were reported to the OECD with a total value of $10 billion. Admittedly, these notifications somewhat overstate the number of commercially focused mixed credit. The feeble nature of the U.S. mixed credit program remains obvious.

2. As mixed credits become an increasingly aggressive weapon for our trading partners to capture certain industrial markets, multilateral rules governing trade finance become superfluous. If an open trading system is to be more than a dream, mixed credits must become an action priority.

When the Congress renewed the Eximbank Charter in 1983 it clearly expressed its intention to negotiate an end to mixed credit subsidies. Toward that end, the Congress directed the Export-Import Bank and U.S.A.I.D. to establish a mixed credit program to assist U.S. exporters facing mixed credit competition. The failure of the administration to effectively implement this program has brought our government to a crisis in export credit negotiations.

The critical need to reestablish international rules which effectively control predatory financing and help sustain a reasonably open international trading system has now come to the attention of the President. For the first time the Administration is giving the mixed credit problem the priority it deserves in calling for the establishment of a $300 million war chest. The fund is conceived primarily as a negotiating tool, an offensive weapon to end permanently mixed credit abuses. CEE is pleased by this new initiative and has always shared its goal.

CEE does have a number of concerns it feels impelled to express as a number of mixed credit proposals are considered by the Congress:

1. CEE regards the proposed fund as an important negotiating tool. It must be used aggressively to maximize the strength of our chief negotiator, the Secretary of the Treasury.

2. Because of the extensive use of mixed credit subsidies (documented above), we could not support any proposal which did not guarantee U.S. companies faced with mixed credit competition the assistance of our government. Our mixed credit programs under the current statutes should be enhanced rather than be terminated, as they would in the Administration's bill.

3. Besides guaranteeing our exporters the support they need in dealing with current competitive pressure, the strengthening of the existing defensive program is critical to the success of any war chest. The programs in Eximbank and U.S.A.I.D. strengthen the U.S. government's negotiating position through added flexibility. Similarly, an offensive program requires accurate and timely market information. The market intelligence Treasury needs for targetting war chest activities depends upon private sector cooperation, which will be available only if U.S. companies are assured an effective retaliatory program. Otherwise, the companies may be forced to source certain sales from overseas.

4. The legislation establishing the war chest fund should in no way erode the traditional authority of the Eximbank or divert resources from the Bank's direct credit authority.

5. Language should be written into any war chest bill so that Eximbank maintains its current statutory authority to extend mixed credits out of its own resources.

6. Legislation must make it clear that the war chest is supported by new money. This is important to Eximbank's institutional integrity, to an effective trade policy, and to a truly enhanced negotiating posture.

7. Under no circumstances should A.I.D.'s ability to participate in a mixed credit response be diminished. It is important that this committee's efforts to assure AID involvement in responding to mixed credits continue. In fact, a reevaluation of U.S.A.I.D. operations as they compare to those of its sister institutions overseas may be in order if a long run solution to mixed credits is to be achieved.

CEE and its members are pleased with the committment and the energy this body has given to resolving the mixed credit problem. It seems that others in Congress are now recognizing the devastating effects these subsidies have had on U.S. jobs and our nation's international competitiveness. Developments in the Congress and now in the Administration offer hope for a legislative package that would bring decisive action on mixed credit abuses. With the committment of the President and the constructive proposals under consideration here and in other parts of the Congress, there is for the first time the basis for a consensus for positive and expeditious legislative action on this issue.

Thank you.

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COALITION FOR EMPLOYMENT THROUGH EXPORTS

Membership as of March, 1985

A. Business Organizations

1. Aerospace Industries Association of America, Inc.
2. Air Products & Chemicals, Inc.
3. Allis-Chalmers
4. American Textile Machinery Association
5. ARMCO, Inc.
6. Avco Corporation
7. Bank of America
8. Bechtel Group, Inc.
9. BF Goodrich Company
10. Blue Bird Body Company
11. The Boeing Company
12. Bucyrus-Erie Company
13. Caterpillar Tractor Company
14. Chase Manhattan Bank
15. Chemtex, Inc.
16. Cincinnati Milacron, Inc.
17. Combustion Engineering, Inc.
18. Deere & Company
19. Dresser Industries, Inc.
20. Ducommun Incorporated
21. E.I. Du Pont De Nemours & Company
22. Empire Machinery Company
23. First Wisconsin National Bank of Milwaukee
24. Fluor Corporation
25. Frederick Electronics
26. GATX Corporation
27. GTE Corporation
28. General Dynamics Corporation
29. General Electric Company
30. Goulds Pumps, Inc.
31. Gulf & Western
32. Hobart Brothers Company
33. Hughes Aircraft Company
34. Lear Siegler, Inc.
35. McDonnell Douglas Corporation
36. Manufacturers Hanover Trust Company

37. Morgan Guaranty Trust Company
38. Morrison-Knudsen Company
39. National Association of Export Companies, Inc.
40. National Machine Tool Builders Association
41. Northrop Corporation
42. PACCAR, Inc.
43. Pennsylvania Engineering Corporation
44. Pneumo Corporation
45. Raytheon Company
46. Rockwell International
47. Rohr Industries, Inc.
48. The Signal Companies
49. Sperry Corporation
50. Stone & Webster Engineering Corporation
51. Sundstrand Corporation
52. Transamerica Delaval Inc.
53. United Technologies
54. Wean United
55. Westinghouse Electric Corporation

B. Labor Organizations

1. American Federation of Government Employees
2. Building and Construction Trades Department, AFL-CIO
3. Coalition of Labor Union Women
4. Communications Workers of America
5. Council of Engineers and Scientists Organizations
6. International Brotherhood of Electrical Workers
7. International Ladies' Garment Workers Union
8. International Union of Electrical, Radio and Machine Workers
9. International Union of Operating Engineers
10. The Seafarers International Union of North America, AFL-CIO
11. United Association of Plumbers and Pipefitters
12. United Automobile, Aerospace and Agricultural Implement Workers of America
13. United Brotherhood of Carpenters and Joiners of America
14. United Steelworkers of America

C. Governors

1. Governor Bob Graham of Florida
2. Governor Bruce Babbitt of Arizona
3. Governor William A. O'Neill of Connecticut
4. Governor George R. Ariyoshi of Hawaii
5. Governor John V. Evans of Idaho
6. Governor James R. Thompson of Illinois
7. Governor John Carlin of Kansas
8. Governor Harry Hughes of Maryland
9. Governor Rudy Perpich of Minnesota
10. Governor Victor G. Atiyeh of Oregon
11. Governor Dick Thornburgh of Pennsylvania
12. Governor William J. Janklow of South Dakota

Chairman NEAL. Thank you very much, Mr. Berry. Mr. Hollinshead.

STATEMENT OF WARREN H. HOLLINSHEAD, ON BEHALF OF THE NATIONAL FOREIGN TRADE COUNCIL, CHAIRMAN, EXPORT FINANCE COMMITTEE

Mr. HOLLINSHEAD. Thank you, Mr. Chairman.

My name is Warren Hollinshead. I am treasurer-international for Westinghouse Electric Corp. I am a native of Durham, NC, Mr. Chairman, so I have some relationship to the State in the past.

Chairman NEAL. We are glad to welcome you.

Mr. HOLLINSHEAD. Thank you.

I am appearing here today on behalf of the National Foreign Trade Council, in particular, its export finance committee, of which I am currently chairman.

As I think you know, the National Foreign Trade Council is composed of over 500 U.S. corporations actively engaged in international trade and investment, including most of the major exporting companies of this country.

My primary purpose is to make some specific points on the administration's legislation, but before I get to that, maybe I'll just make a few comments about background, in particular, for those of us who are in the private sector out there facing the kind of aggressive competition we've had with the use of mixed credits by foreign countries over the last few years. And it is disheartening for us who are out there in the frontline trenches trying to fight this mechanism, to be reminded of sort of textbook economics every once in a while. If you simply wait long enough, the dollar will come down and everything will be all right again.

We've been waiting now for 3, 4, 5 years, and the decline in the dollar is not really making us competitive yet in export markets. Therefore, I think we need something more than the negotiating process of the administration, something more than lectures, if you will, from various persons in economics.

The negotiations have been going on within the OECD to try to correct this practice for sometime, and what has been the result? In effect, mixed credits have been on the increase over the years that these negotiations have been going, rather than decrease. So we don't think the negotiating process has really been effective so far.

Let me give you a particular example with which I am familiar, which is a consequence of some of the lack of support that private industry has faced in the export field over the last few years. This is a transaction involved in the Middle East where the United States exporter involved has been forced, in effect, by the lack of support from the Eximbank and other agencies, to source approximately 60 or 70 percent of this project from Japan and from Europe.

The reason why is because we are not getting the kind of support out of Exim and other Government agencies that these other countries are willing to give, so that means a shift of jobs to those countries. It means a shift of profits and taxes, tax revenues for those countries. And ultimately, if this is going to continue on, it means

a shift in technology, because those countries are developing the products which otherwise would have been developed in the United States and produced in the U.S. factories.

In this particular case, it is a transaction which is ever more disheartening, I suppose, because the U.S. exporter involved had a significant market share in the country involved. That exporter has been a dominant leader, and now that U.S. exporter is having introduced competitive products from Japan into that market for the first time. That is a discouraging development, Mr. Chairman, for U.S. exporters. While that particular case did not involve mixed credits, it does involve, in effect, lack of support by agencies of the Government and is particularly trying to us.

Let me shift to the specific comments that I have on the administration's legislation and start off with the present provision in the legislation which would propose a duration of only 2 years to the legislation. I think that telegraphs our punch in advance. The French, the Italians, the Belgians, and the others have been involved with mixed credits for many years. If the program is limited to a 2-year duration, they will simply wait us out.

So we would suggest eliminating that 2-year limitation, but retaining a Presidential power to recommend to the Congress a termination of the program, once the objectives have been reached, and by the objectives, I mean having a workable, practical OECD agreement which will either eliminate mixed credits or certainly reduce them significantly.

Second, we believe that the amount of $300 million is just too small to be credible. I read last night coming down, in the Economist magazine a specific reference to the war chest proposed legislation, that European countries are wondering whether this isn't simply another paper tiger of the administration. The administration has not been very supportive in the past of exports. Even now, with this proposed legislation, the question is being asked, Is this simply a paper tiger that will soon blow away?

So a mixed credit program which only supports $1 to $1.2 billion of exports, when the country is exporting $220 billion, is a fairly small incremental effect on the country's export program. Congresswoman Nancy Johnson's bill, proposing $500 million, is a more realistic amount, and even that is less than the $1 billion war chest proposed by Senator Heinz several years ago.

Congressman Bonker gave you some numbers from other countries' export credit programs in the mixed credit field. The United Kingdom recently budgeted $784 million in a single year. The Canadians are now in the mixed credit activity, and they have proposed an activity which would reach $300 million in the near future.

Those, Mr. Chairman, by the way, are the grant elements, not the total export, but the grant elements in the Canadian program, in the case of the United Kingdom.

Here we're talking about legislation that is at the low end of those kind of spectrums, and obviously, the export volume of the United States is substantially greater in dollar terms than that from Canada or from Great Britain.

Third, we feel it is important to preserve the statutory authority given to Eximbank and AID by Congress in 1983 to establish a mixed credits program. The administration's proposal would eliminate that authority and place it with a new facility set up in the Department of the Treasury. We recommend that the legislation history state that the proposed war chest bill should not reduce the Exim's direct credit budget, nor should it eliminate the authority given to Exim and AID by Congress under the current statute to provide mixed credits themselves, if needed.

Fourth, I would like to make in regard to the proposed legislation is, we have some concern as to whether the U.S. Treasury Department alone is the most appropriate agency of the Government to administer the war chest program, nor do we think that Treasury and the Eximbank, together, would be sufficient for this process. We think that we ought to have involved, U.S. AID, the U.S. Trade Representative's Office, the U.S. Department of Commerce should have their input, and if the program is going to work, we need to have the mentality and some experience in dealing with international export markets, the trading systems of countries and a willingness to deal with the program through a comprehensive government strategy.

We really question whether the U.S. Treasury has the right mentality to spend taxpayers' money in this regard. As a treasurer myself, I can speak to that. Most of our emphasis is on controlling things, on limiting things, on making sure everything is absolutely properly justified to the T. And that is not the kind of mentality we need, if we are going to have a first strike effect.

Fifth, regardless of whether the U.S. Treasury, Eximbank or even AID would be administrator of the program, the U.S. exporter needs to have an agency that can act quickly. To ensure maximum effectiveness of the program, there will be occasions where the exporter needs a commitment on the availability of mixed credit funds, so that an export order can be obtained through a one-on-one negotiation rather than a public tender.

Six, if the mixed credit funds are to be used in a preemptive, sort of proactive kind of way, then exporters need a process whereby they can obtain a preliminary commitment for mixed credit funding prior to the exporter making a bid in a public tender process. This assumes, as we believe it is the intent of the legislation, that the new mixed credit program would not only permit the U.S. exporter to match mixed credits being offered by another country but to also be able to obtain mixed credit support on a first strike basis.

We think it is important that the legislation permit both activities, that is, a first strike activity, as well as a matching activity, which has existed under the current legislation.

If the mixed credits program is going to be effective, then we need a clear direction to the Eximbank, that in working with the mixed credits program this time around, that they take more seriously their "competitiveness" mandate than they do their "reasonable assurance of repayment" mandate.

We thought that the export committee and Congress had made it clear several years ago that it was the primary priority of Eximbank to be competitive, but the Bank seems to slip around and feel

more comfortable with the mantle of "reasonable assurance" of repayment.

If we're really going to have this war chest program work and become effective, we need to have it clearly understood to Eximbank that the Bank will regard competitivensss as its first priority in administering the program.

I guess to close with maybe a simple little story, I remember several years ago, when we had a top official of the administration in the U.S. Treasury Department give a speech which got first page coverage in the New York Times and the Wall Street Journal about, if the French and various other countries continued to undertake mixed credit programs, they would find out just how deep the pockets were of the U.S. Government, U.S. capital markets and they would be taught a lesson.

That speech was made 3 or 4 years ago. I guess I could only conclude that that pocket, that deep pocket must have had a hole in it, because not much has happened in the last 3 or 4 years by the administration, so we are very welcoming of the efforts now by the administration to do something to stop this practice of mixed credits. We hope it is, indeed, a self-destruct kind of program, that as soon as we can get a credible OECD agreement, then the program and the funding will go away, because we are not in favor of the subsidies that are involved. We want to see them terminated as soon as we can get a strong OECD agreement to eliminate or reduce mixed credits.

Thank you very much, Mr. Chairman.

[The prepared statement of Mr. Hollinshead follows:]

STATEMENT OF WARREN H. HOLLINSHEAD, CHAIRMAN
EXPORT FINANCE COMMITTEE - NATIONAL FOREIGN TRADE COUNCIL
BEFORE THE SUBCOMMITTEE OF INTERNATIONAL FINANCE, TRADE
AND MONETARY POLICY, BANKING COMMITTEE
U.S. HOUSE OF REPRESENTATIVES

OCTOBER 23, 1985

My name is Warren H. Hollinshead, I am Treasurer-International for Westinghouse Electric Corporation, a native of Durham, North Carolina, and am appearing here today on behalf of the National Foreign Trade Council's Export Finance Committee of which I am Chairman.

The National Foreign Trade Council is composed of over 500 U.S. corporations engaged in foreign trade and investment, including most of the major exporting companies of the Country.

My primary purpose in testifying today is to give guidance to the Congress on the current statute relating to mixed credits in the light of two proposed bills: the Competitive American Exports Act of 1985 (HR 3296) introduced by Congresswoman Nancy Johnson and the Administration's War Chest Bill (HR 3515). However, before I come to that portion of my testimony, I would like to begin with some broad comments on international trade and mixed credits.

Thirty years ago I was an undergraduate at Amherst College majoring in political science. One of the concepts I learned was that it was a fundamental duty of government to protect its citizens - not only against war, but also against the predatory practices of foreign governments. Unfortunately over the last five to ten years the U.S. government has not been very successful in protecting the U.S. export community from unfair trading practices of other industrial countries. Mixed credits are one key example.

In the midst of this country's largest-ever foreign trade deficit, we have been told to sit back and let market forces lower the exchange rate so that we can start exporting again. In the midst of losing market share to foreign competitors in country after country we are told to be patient and let the U.S. government's negotiating process with other OECD countries bring us relief.

And what has been the result? Despite the sophisticated effort that has gone into the OECD negotiating process by our government representatives, mixed credits are on the increase, not decrease. It is naive for us to think that the United States can stop the use of mixed credits simply through the negotiating process. The United States has lost much of the

international power we once had to force other countries to accept liberal international trading and financing practices. The reason the French have been a leader in the use of mixed credits is that they perceive it to be in their best national interests and they have gotten away with it.

For those of us confronting the aggressive competition over the last several years, we welcome the attention that the Administration is finally giving to this problem. We appreciate the initiative taken by Congress in providing the authority for the mixed credits program contained in the 1983 Trade Development and Enhancement Act which now needs to be substantially improved to make a difference. It is unfortunate that so many major exporting opportunities have been lost as a result of the Administration's unwillingness to turn Congress's mandate into a truly aggressive, retaliatory program.

At times over the last few years, the support from the U.S. Eximbank and other U.S. governmental agencies involved with foreign trade has been such that American exporters have been forced to turn to foreign sources of supply in order to compete in third world markets. For example, in a transaction in the Middle East, the lack of support from the Eximbank forced a U.S. exporter to source millions of dollars worth of products from factories in Japan, Belgium, Spain, etc., rather than use

products from its own factories in the United States. The sole reason for going to foreign sources of supply? - because those countries were willing to grant financial assistance to the Middle Eastern country above and beyond that which the United States Government was willing to grant. That foreign sourcing of equipment means lost jobs, lost profits, and lost tax revenues for the United States. If foreign sourcing continues long enough the United States could also lose its technological lead. While this particular transaction did not involve mixed credits, it is illustrative of the lack of support U.S. exporters have experienced.

It was a particularly agonizing situation for the U.S. exporter who had acheived over a number of years a significant market share in that Middle Eastern country. Now he was forced to source from Japan and Europe. Losing a major export sale is bad enough, but when a company is forced to take action which could permanently and adversely affect its market share, that is even more serious. Mr. Chairman, I submit that text book economics alone will not do the job when markets are intentionally distorted by governments. You need hard-line political measures to be able to reduce the resulting $120 billion trade deficit. The United States government cannot continue to do "business as usual" when this country is running its worst trade deficits in history.

The point being made is that negotiations on the OECD consensus agreements are not enough. The United States needs to show some muscle - we need a strong, credible mixed credits program of our own, one which would self-destruct once other countries abandon theirs, but a mixed credits program which demonstrates clearly that the United States is no longer going to be pushed around in international trade. We see the proposed War Chest Legislation as important not only because it addresses the mixed credits problem directly, but because we hope that it indicates a new attitude of support by the administration for the U.S. exporter.

With those kinds of introductory comments, let me now address myself specifically to the legislation being proposed. We agree with the objective which is to ultimately reach a practical, enforceable OECD agreement which will eliminate or severely reduce the use of mixed credits in international trade.

Notwithstanding our agreement on the objectives, however, we have certain comments as to whether the provisions of the proposed legislation are a practical method for reaching the agreed-upon objectives.

1) We are concerned that the Administration's proposed legislation is limited to a duration of two years. That telegraphs our punch in advance. The French, Italians, and the Belgians have been doing mixed credits for twenty years or more. If the program is limited to a two-year duration, they will simply wait us out. We suggest eliminating the two-year limitation on the program, but retaining a Presidential power to recommend to the Congress to terminate the program once the objectives have been reached. We need to have a mixed credits program which is perceived as hard-hitting and a continuing program which will go beyond some type of early, apparent success in the OECD negotiation process.

2) We believe that the amount of $300 million is too small to be credible. A $300 million mixed credits program will only support exports in the range of $1 to $1.2 billion dollars compared to a total of $220 billion exports from the United States. Congresswoman Nancy Johnson's bill proposing $500 million is a more realistic amount and even that is less than the $1 billion War Chest proposed by Senator Heinz several years ago.

To calibrate you as to the mixed credits programs of other countries, the U.K. recently budgeted $784 million in a single year. The Canadians have talked about establishing a mixed credits program which would reach $300 million in the near future. These amounts are for nations whose volume of export trade is much less than that of the United States. We would strongly urge that the Congress consider legislation which would raise the $300 million level to the $500 million level proposed by Congresswoman Johnson.

3) We feel it is important to preserve the statuatory authority given to Eximbank and AID by Congress in 1983 to establish a mixed credits program. The Administration's proposal would eliminate that authority and replace it with a new facility set up in the Department of the Treasury. We recommend that the legislative history states that the proposed War Chest Bill should not reduce the Exim direct credit budget nor should it eliminate the authority given to Exim and AID by Congress under the current statute to provide mixed credits themselves if needed.

4) We have concerns as to whether the U.S. Treasury Department alone is the most appropriate agency of the government to administer the War Chest Program. Nor do we think that the U.S. Treasury and the Export Import Bank together would be

sufficient for this process. We think that U.S. A.I.D., the U.S.Trade Representative's office and the U.S. Department of Commerce should have their input. If this War Chest Program is to work, we need a mentality which is based on solid understanding of the international export markets, the trading systems of countries and a willingness to deal with the program with a comprehensive U.S. government strategy. We question whether the U.S. Treasury personnel have the right mentality in regard to spending taxpayers money. As a treasurer myself, I can speak to that. Treasurers are concerned about control, limiting things, making sure everything is properly justified. If this War Chest Program is to work, we need a different mentality here. While we certainly understand that the U.S. Treasury would have an important role to play in the overall interagency process, we would recommend that the important role of the interagency system be maintained.

5) Regardless of whether the U.S. Treasury, Eximbank or even AID were to be the administrator of the program, the U.S. exporter needs to have an agency that can act quickly. To ensure maximum effectiveness of the program, there will be occasions when the exporter needs a commitment on the availability of mixed credit funds so that an export order can be obtained through a one-on-one negotiation rather than a public tender. That is often the way other

countries have used mixed credits in the past - at times U.S. exporters do not even see the business being offered for international quotation because the transaction has been previously and privately arranged with the assistance of a mixed credits grant.

In addition to quick response time, U.S. exporters should have one-stop shopping in utilizing the mixed credits program. In other words, the exporter should not have to deal with several agencies of the government in order to obtain approval for mixed credits funding. We recommend that that agency be the Eximbank.

6) If the mixed credits funds are to be used in a proactive, preemptive kind of manner, then exporters need a process whereby they can obtain a preliminary commitment for mixed credit funding prior to the exporter making a bid in a public tender process. This assumes, as we believe it is the intent of the legislation, that the new mixed credits program would not only permit the U.S. exporter to match mixed credits being offered by another country but to also be able to obtain mixed credit support on a first strike basis.

7) If the mixed credits program is going to be effective, then we need a clear direction to the Eximbank that in applying the War Chest Program the Exim "competitiveness" mandate ought to be viewed as its principal mandate in order to prevent valid cases from being trapped in a narrow interpretation of the Bank's requirement of "reasonable assurance of repayment." The exporting community felt that Congress had made this intention clear to Eximbank at the time of the last renewal of the Exim charter. Notwithstanding what was thought to be the clear intent of Congress, Exim still maintains that its charter requires it to give priority to reasonableness of repayment as compared to the other Congressional mandate of supporting U.S. export activity.

Thank you for receiving my testimony today and I would be happy to answer any questions the committee may have.

10/23/85

Chairman NEAL. Thank you, Mr. Hollinshead.
Professor McCulloch.

STATEMENT OF RACHEL McCULLOCH, PROFESSOR OF ECONOMICS, UNIVERSITY OF WISCONSIN AND MEMBER OF THE PRESIDENT'S COMMISSION ON INDUSTRIAL COMPETITIVENESS

Professor MCCULLOCH. After the previous speaker's introduction, I feel like I have two strikes against me as an economist and a professor. Let me add a third strike by saying that I am not speaking here as a member of the President's Commission on Industrial Competitiveness; I feel confident that at least some of my fellow members of the President's Commission would disagree strongly with the point of view I am about to express.

I am pleased to testify today on the subject of tied-aid export credits. To begin with, I would like to emphasize that the fundamental issue of tied aid is one we have been through over and again for at least three decades. As a practical matter, the amount of tied aid has been decreasing, rather than increasing, since the 1960's as a proportion of total aid. The new wrinkle in today's problem is that the aid is being spread out as mixed credits in conjunction with commercial export finance.

There are two reasons that many countries got away from tying a large proportion of total aid.

One reason was the objection on the part of the recipient countries themselves which viewed this, at least in the past, as an infringement of their national sovereignty. Now, they are singing a different tune.

The second reason, one that appeals more to economists and professors is that the tying of aid does not achieve the objective for which it is employed; namely, to improve the Nation's balance of payments or to improve the employment level in the country. It reshuffles them, but it does not have a substantive effect on the aggregates.

I will come back to this point because it has arisen in some of the other testimony and certainly in the administration's case for its mixed-credit fund.

To see the current proposals in better perspective, it might be useful to consider some of the events that have caused the issue of mixed credit to assume its current priority in an administration that previously was not too interested in this issue.

First, the issue of mixed credit appears to be the one remaining item on the administration's list of negotiating objectives with respect to export credits. Following several years of negotiations, the OECD nations agreed in November 1983 on measures to reduce, or completely eliminate in some cases, subsidized export credit for many types of transactions. Further progress has been achieved in the last year with an agreement to eliminate all mixed credits for financing nuclear power projects and large commercial aircraft purchases.

To further limit the role of tied aid as an element of commercial export financing, the United States has pursued agreements on a minimum grant element for any mixed credit package. The ration-

ale for this is to make mixed credits a very expensive strategy for creating commercial advantage.

The allowable minimum was initially set at a 20-percent grant element in 1982 and was raised to 25 percent as recently as April 1985. The goal of U.S. negotiators is to raise the minimum to 50 percent, with French opposition apparently the main remaining obstacle to this further increase.

In testimony before another committee, a Treasury official described the current status of negotiations on this point as having reached an impasse. Presumably as a means of persuading the French, the major holdout, to agree to a higher threshold, the administration now proposes what it has called an aggressive and preemptive programs, terms not defined.

It is curious to me that such provocative action is deemed necessary less than 6 months after some substantive progress was achieved toward the stated U.S. goal. We have agreed on the principle; we are haggling over the details; and as recently as April 1985 we increased the minimum from 20 to 25 percent.

Something which I did not include in the prepared testimony but which is very relevant to some of the points raised earlier today, is that we have also stretched out the announcement time for other countries' offers of mixed credit, so that the United States now has a full working month to respond to any other country's mixed-credit offer. This may not be enough under current institutional arrangements, but that seems to be a different problem than the one addressed by an aggressive and preemptive strategy.

To see why the mixed-credit issue has lately become so pressing in the eyes of U.S. officials, it is instructive to look at the recent trend in U.S. exports to developing countries.

Between 1981 and 1984, U.S. exports of manufactured products to developing countries dropped by $14 billion, with exports to Latin America alone dropping by $10 billion.

Over the same period, even with a very strong dollar, U.S. exporters were able to maintain or in some cases to substantially increase their exports to all other major markets. So that means that a substantial part of the recent deterioration in the Nation's overall balance of trade can be traced to lower sales in the developing countries, and in particular Latin America.

As we all know, the declining sales of U.S. firms and, indeed, of all sales of industrialized nations as a group in the developing areas are due primarily to debt problems of some of these nations and the resulting reluctance of commercial lenders to provide credit, something that Mr. Volcker is working on at this moment.

A second and related factor is the depressed market for most primary commodities, which gives these countries less purchasing power for new projects.

As a result, the exporting countries are competing for slices of a much smaller pie than in the past, even just a few years ago. So even the same amount of mixed credit financing would loom much larger in its impact on total market shares.

Another reflection of the credit problems of the developing countries is that those same developing countries that before were worried about tying because it infringed on national sovereignty are now actively seeking out tied aid as a way of financing their pur-

chases, and although some mixed credit arrangements are still initiated by competing suppliers, the buyers frequently demand more favorable credit terms before they are willing to close the deal.

There is little doubt that U.S. firms have lost some major contracts as a consequence of the greater flexibility of other nations to offer these mixed credits, although it is difficult to prove that in any particular case the terms of financing were decisive in shifting a sale from one supplier to another or, as the previous speaker indicated, switching sourcing from one country to another.

Whether or not the credit arrangement was a decisive factor, a lost sale undeniably means lower profits for the affected firm and may also mean that the firm employs fewer workers in its American operations.

This does not imply, however, that the U.S. trade deficit or U.S. employment are in the aggregate affected the same way. The credit arrangements of other countries can reduce U.S. gains from trade by distorting the patterns of U.S. payments, but the aggregate can change only if there are corresponding changes in U.S. transfers abroad, including aid flows or in the capital account, and there is no reason to expect that kind of link.

Still, the viability of our market system depends on the perception on the part of U.S. firms and workers that they will be protected from unfair competition bankrolled by foreign treasuries. So the administration cannot afford to ignore the problem raised by mixed credit. But it is a separate question how best to address the problem.

As I have already noted, U.S. negotiators have managed to make substantial progress toward their stated goal on this issue. So we need to ask how the present proposals can contribute to national well-being, either during the limited but perhaps rather long period in which credit is used aggressively against those nations, especially France, obstructing further progress or, in the long run, by changing the atmosphere for international negotiations on trade issues more broadly.

Other witnesses have already brought up the question of how the limited funds available for U.S. mixed credits would be allocated among potential exporters and markets. Whatever the answer, it deserves very close scrutiny. Whether or not particular U.S. firms have in the past actually lost sales as a consequence of foreign mixed credit arrangements, they can all profit from access, even temporary access, to U.S. mixed credits.

Several supporters of the legislation have been careful to emphasize that the fund should not be regarded as another entitlement program for exporters, yet this is itself an implicit recognition of the problems that arise when any approach other than simple matching of foreign credit offers is used in allocating available funds.

Apart from the method of allocation, a second question is how the temporary policy would affect the national well-being as opposed to the well-being of particular exporters. Unlike the credit matching approach, the short-run strategy of the administration is not aimed at identifying and eliminating distortions in global trading patterns. The stated purpose is to inflict costs on other nations.

Would there be a favorable effect on the U.S. trade balance? If the allocated funds result in a net increase in U.S. transfers abroad or a net decrease in capital inflows, the result will be an improvement of like size in the Nation's trade balance. However, the same will be true of any use of funds that increased net transfers or reduced net capital inflows. Likewise, there is no greater presumption of job creation from this proposal than from an alternative use of the same funds, although the employment effects will not necessarily occur in the same sectors.

A third question to be raised is how other exporters will be affected by the temporary U.S. adoption of the distorting practice it seeks to eliminate in the long run.

While advocates of the proposed legislation emphasize costs imposed on nations which have failed to cooperate with U.S. efforts, it is usually the case in major contracts that many nations are involved in the bidding. Unless target markets are so specialized or so minor that only the French are interested in the business, costs will be inflicted on third parties, too, including those that have not been guilty of violating the guidelines. These may include some developing countries that lack the financial firepower to join the ensuing free-for-all on subsidized export credit.

By far the most important question to me is how effective this policy can be in attaining its stated goal of changing the negotiating pattern of our trading partners. Here it is worth noting again that reports of a stalemate seem premature.

In any event, to resort to aggressive tactical behavior when total agreement on the U.S. proposal cannot be quickly obtained would appear to set a highly undesirable precedent for other nations with their own negotiating agendas which may not coincide with that of the United States.

If, indeed, a stalemate has been reached, a positive rather than negative negotiating strategy is equally an option for the United States which has plenty of other chips.

On the last two questions, we have some evidence. The idea of fighting fire with fire is not a new development in U.S. trade policy. Some time ago we were dissatisfied with progress on eliminating certain European Community agricultural export subsidies. The United States decided to retaliate by subsidizing the sale abroad of its own surplus products. As in the current proposal, the administration emphasized its aim of forcing the Europeans to the bargaining table, but so far nothing has happened in the bargaining and in the meantime the main loser is not the Europeans but rather Argentina.

In sum, I have raised questions that concern both the temporary effects of the proposed mixed credit arrangement and its efficacy as a means to resolve an international dispute on trade guidelines. As the United States is looking to engage the active support of its trading partners for a new round of multilateral negotiations aimed at strengthening and extending the discipline of the GATT, it seems a particularly inopportune moment to abandon multilateral efforts and provoke an international shootout over the issue of mixed credits.

Thank you.

[The prepared statement of Professor McCulloch follows:]

STATEMENT OF

DR. RACHEL MCCULLOCH
PROFESSOR OF ECONOMICS
UNIVERSITY OF WISCONSIN - MADISON

BEFORE THE

SUBCOMMITTEE ON INTERNATIONAL FINANCE, TRADE
AND MONETARY POLICY
OF THE
COMMITTEE ON BANKING, FINANCE AND URBAN AFFAIRS
U.S. HOUSE OF REPRESENTATIVES

OCTOBER 23, 1985

Mr. Chairman and Members of the Committee:

I am pleased to testify today on legislation that would facilitate use by the United States of tied-aid export credits. The two bills under consideration by the Subcommittee, H.R. 3296 and H.R. 3515, would authorize funding for "mixed credits" for use in support of U.S. exports to less-developed countries. Both bills view the proposed financing as a purely temporary measure, designed to improve the competitive position of U.S. firms currently affected by mixed-credit arrangements of foreign governments, but with the primary goal of inducing those governments to further restrict use of such credits.

The fundamental issue of tied aid is far from new. The practice of restricting the use of aid loans and grants to the purchase of goods and services of the donor nation is a long if not particularly illustrious tradition. As a proportion of total aid, however, such tied aid has in fact been declining in importance. That decline has occurred primarily in response to pressure from recipient countries, which have viewed such conditionality as an infringement on national sovereignty. Yet the donors themselves stand to gain from untying their aid. The economic arguments against tying are that it leads to an inappropriate and inefficient use of limited aid resources and that, contrary to its avowed objective, tying is ineffective as a means to raise the balance of trade or expand employment in the donor nation. I will return to the latter point, as it has arisen again in the Administration's case for its mixed-credit fund.

To see the current proposals in better perspective, it is useful to consider the events which have caused the issue of mixed credits to assume its current priority in the Administration's overall strategy toward trade.

First, the issue of mixed credits appears to be the one remaining item on the Administration's list of negotiating objectives with respect to export credits. Following several years of negotiations, the OECD nations agreed in November 1983 on measures to reduce or completely eliminate subsidized export credit in many types of transactions. Further progress has been achieved in the last year, with an agreement to eliminate all mixed credits for financing nuclear power projects and large commercial aircraft.

To further limit the role of tied aid as an element of commercial export financing, the United States has pursued agreement on a minimum grant element for any mixed-credit package. The rationale for this approach is to increase the cost to exporting nations of using aid funds as a means to create a commercial advantage. The allowable minimum was initially set at 20 percent in 1982 and was raised to 25 percent as recently as

April 1985. The goal of U.S. negotiators is to raise the minimum to 50 percent, with French opposition apparently the main obstacle to this further increase.

In testimony before another committee, John Lange, Director of the Office of Trade Finance of the U.S. Treasury, described the current status of the negotiations on this point as having reached an impasse. Presumably as a means of persuading the French to agree to the higher threshhold, the Administration now proposes what it has called an "aggressive and preemptive" program. It is curious that such provocative action is deemed necessary less than six months after substantive progress was achieved toward the stated U.S. goal.

To see why the mixed-credit issue has lately become so pressing in the eyes of U.S. officials, it is instructive to look at the recent trend in U.S. exports to developing countries. Between 1981 and 1984, U.S. exports of manufactured products to developing countries dropped from $66 billion to $52 billion, while exports to Latin America alone dropped from $28 billion to $18 billion. Over the same period, even with the very high international value of the dollar, U.S. exporters managed to raise or at least maintain their industrial exports to all other major markets. Thus, a substantial part of the recent deterioration in the nation's overall balance of trade can be traced to lower sales in the developing countries.

As we all know, the declining sales of U.S. firms (and, indeed, of the industrialized nations as a group) in developing areas are due primarily to debt problems of some of these nations and the resulting reluctance of commercial lenders to provide new credit. A second and related factor is the depressed market for most primary commodities. As a result, exporting nations are competing for slices of a much smaller pie than a few years ago, and even the same amount of mixed-credit financing looms much larger in its impact on market shares. Another reflection of the credit problems of the developing countries is that while some mixed-credit arrangements are initiated by competing suppliers, buyers frequently demand more favorable credit terms before deals are closed.

There is little doubt that U.S. firms have lost some major contracts as a consequence of the greater flexibility of other nations to offer mixed credits, although it is difficult to prove that in any particular case the terms of financing were decisive in shifting a sale from one supplier to another. Whether or not the credit arrangement was the decisive factor, a lost sale undeniably means lower profits for the affected firm, and it may also mean that the firm employs fewer workers.

This does not imply, however, that the U.S. trade deficit or U.S. employment in the aggregate are affected in the same way.

The credit arrangements of other countries can reduce U.S. gains from trade by distorting the pattern of U.S. exports. But the aggregate U.S. trade balance can change only if there are corresponding changes in U.S. unilateral transfers abroad (such as a fall in total U.S. aid funds) or in the capital account, and there is no reason to expect such a link.

Still, the viability of our market system depends on the perception of U.S. firms and workers that they will be protected from unfair competition bankrolled by foreign treasuries. Thus, the Administration cannot afford to ignore the problems raised by mixed credits. But it is a separate question how best to address the problem. As I have already noted, U.S. negotiators have managed to make substantial progress toward their stated goal on this issue. So we need to ask how the present proposals can contribute to national well-being, either during the limited period in which credit is used aggressively against those nations (primarily France) obstructing further progress, or in the long run, by changing the atmosphere for international negotiations on trade issues.

Other witnesses will address the question of how the limited funds available for U.S. mixed credits would be allocated among potential exporters and markets. Whatever the answer, it deserves close scrutiny. Whether or not particular U.S. firms have in the past actually lost sales as a consequence of foreign mixed-credit arrangements, they can all profit from access, albeit temporary, to U.S. mixed credits. Several supporters of the legislation have been careful to emphasize that the funds should not be regarded as an entitlement program for exporters. Yet this is an implicit recognition of the problems that arise when any approach other than simple matching of foreign credit offers is used in allocating available funds.

A second question is how the temporary policy would affect national well-being, as opposed to the well being of particular exporters. Unlike a credit-matching approach, the short-run strategy is not aimed at identifying and eliminating distortions in global trading patterns. The stated purpose is to inflict costs on other nations. Would there be a favorable effect on the U.S. trade balance? If the allocated funds result in a net increase in U.S. transfers abroad or a net decrease in capital inflows, the result will be an improvement of like size in the nation's trade balance. However, the same would be true of any use of funds that increased net transfers or reduced net capital inflows. Likewise, there is no greater presumption of job creation from this proposal than from an alternative use of the same funds, although the employment effects will not necessarily occur in the same sectors.

A third question is how other exporters will be affected by the temporary United States adoption of the distorting

practice it seeks to eliminate. While advocates of the proposed legislation emphasize costs imposed on nations which have failed to cooperate with U.S. efforts, it is usually the case in major contracts that many nations are involved in the bidding. Unless target markets are so specialized or so minor that only the French are interested in the business, costs will be inflicted on third parties too. These may include some developing countries that lack the financial firepower to join the ensuing free-for-all.

The fourth and most important question is how effective this policy can be in attaining its stated goal. Here, it is worth noting again that reports of a stalemate seem premature. In any event, to resort to aggressive tactical behavior when total agreement on a U.S. proposal cannot be quickly obtained would appear to set a highly undesirable precedent for other nations with their own negotiating agendas. If indeed a stalemate has been reached, a positive rather than a negative inducement is equally an option for the United States.

On the last two questions, some evidence is already at hand. The idea of fighting fire with fire is not a new development in U.S. trade policy. Dissatisfied with progress on eliminating certain EC agricultural export subsidies, the United States some time ago decided to retaliate by subsidizing the sale abroad of its own surplus products. As in the current proposal, the Administration emphasized its aim of forcing the Europeans to the bargaining table. But to date no progress has been made on the issue, and in the meantime the main loser appears to be not Europe but Argentina.

In sum, I have raised questions that concern both the temporary effects of the proposed mixed-credit arrangement and its efficacy as a means to resolve an international dispute on trade guidelines. As the United States seeks the active support of its trading partners for a new round of multilateral negotiations aimed at strengthening and extending the discipline of the GATT, it seems a particularly inopportune moment to abandon multilateral efforts and provoke an international shootout over the issue of mixed credits.

Chairman NEAL. Thank you, Professor McCulloch, very much. Now, Mr. Sohn, we would like to hear from you, please.

STATEMENT OF STEPHEN SOHN, PRESIDENT OF INTERNATIONAL MANAGEMENT AND EXPORT DEVELOPMENT CORP., ON BEHALF OF THE EXPORT FINANCE WORKING GROUP OF THE CHAMBER OF COMMERCE OF THE UNITED STATES

Mr. SOHN. Thank you, Mr. Chairman. It is always a pleasure to be invited to appear before your committee.

I am Stephen Sohn, president of International Management and Export Development Corp. We are an international trade consulting organization. Export financing represents one of our primary areas of focus.

I am also chairman of the export finance working group of the Chamber of Commerce of the United States, on whose behalf I appear today.

The chamber has been an active advocate of a U.S. mixed credit program for several years. In fact, the practice was first discussed within chamber's committee structure in the late 1970's. The creation of a U.S. program was recommended at that time.

Subsequently, the chamber was an active participant in the efforts leading to the passage of the Trade Development Enhancement Act of 1983, which created the Tied-Aid Mixed Credit Program in Eximbank and AID.

While mixed credits affect a relatively small portion of world trade, they are nevertheless an important segment.

Ironically, this financing practice is generally limited to activities in which U.S. industry has a strong competitive edge. When U.S. companies lose to foreign government intervention, they lose much more than the identified sale the exporter realizes.

Regardless of how competitive their product or service, the competition can rely upon their government to more than compensate for the product's disadvantages through the use of predatory financing support.

The U.S. companies then have the option of supplying the overseas market from abroad, primarily in countries that offer generous export financing, or abandoning all efforts to obtain the order.

In March 1984, I testified on mixed credits before the Subcommittee on International Economic Policy and Trade of the Committee of Foreign Affairs. The chamber's recommendations for improvements were directed to three major areas at the time—allocation of a fixed amount of appropriated economic support funds to support U.S. AID's tied-aid credit commitments for fiscal 1984, recommendation of the appointment of a mixed credit coordinator, encouragement of greater flexibility in AID's and Eximbank's programs for a speedier response to exporter requests.

Eighteen months have elapsed since the chamber made these points to that subcommittee. Changes in the international trade situation in that time have been dramatic and lend urgency to the need for speedy enactment of legislation to strengthen the existing legislation by providing funding and administrative mechanisms necessary for a successful mixed credit program.

According to the OECD, foreign mixed credit offers have escalated and will amount to more than $6 billion in 1985. The scale of this burgeoning mixed credit activity underscores the importance of finding a way to eliminate the practice permanently.

As administration witnesses before this subcommittee have also recognized, foreign mixed credits are taking business away from American firms that would have been theirs if the transactions had been on a purely commercial basis.

Not only is this a national loss in terms of U.S.-based production and employment, but it also distorts the marketplace so that purchase decisions are no longer made on the basis of price, quality or service.

While the mixed credit disease may be more advanced today than 18 months ago, the same period has witnessed a dramatic turnaround in the administration's commitment. The real significance of the proposed so-called war chest, is that the administration is now firmly on record to the effect: No. 1, that foreign mixed credit activity causes serious injury to U.S. export interests. No. 2, that special funding should be provided to help American exporters and to provide a negotiating tool to end this predatory financing practice, and No. 3, that the negotiations within the OECD have run into the reality that certain foreign governments regard mixed credit and related programs as extension of their own domestic economic policy. As such, securing the elimination of the practice will require an extraordinary international effort.

The two mixed credit bills recently introduced, while representing different approaches, share the same objective, the ultimate demise of mixed credits. The chamber commends both Representative Nancy Johnson and the administration for their initiative in responding to the plight of American exporters.

The chamber believes that the U.S. Mixed Credit Program should have a dual thrust. It should be able to support American exporters in the day-to-day mixed credit competition in world markets. It should also serve as an effective negotiating tool for bringing about the end of mixed credits.

H.R. 3515, the administration's proposal, would provide $300 million in funding for U.S. mixed credits. This is a bold commitment that is welcomed by American exporters; however, the proposal appears to us to be focused too nearly. By limiting offers to cases designed to offset and anticipate the mixed credit offers of France and other reluctant negotiators, American firms would be left defenseless against the very active ongoing programs of Canada, Britain, German, Japan, and other so-called good guys.

The administration's bill contains a sunset provision of September 30, 1987, while H.R. 3296, introduced by Representative Johnson, would expire when a satisfactory international agreement is secured. The 1987 date does not provide a particularly secure basis for even short-range corporate export marketing plans. If anything, the doubts about the future of Government support in mixed credit situations would encourage the tendency of firms to supply the markets in question from overseas subsidiaries; that is, those companies which have that capability.

H.R. 3296 would further strengthen the programs already established within Exim and AID. We believe the approach indicated in

this bill would provide the basis for the U.S. mixed credits program, and the so-called war chest bill should be a complement to that legislation, not a replacement for it.

The chamber opposes the elimination of the existing programs in Exim and AID as proposed in the administration's bill. These two agencies have resources and staff experience that are crucial to the success of the U.S. program. Exim is accustomed to working with exporters in a timely fashion and has already developed a body of experience on foreign mixed credit activity.

It is also important to retain AID's mixed credit involvement, particularly now that funding has been authorized under the International Security Act of 1985. The nature of our foreign aid programs has changed considerably in recent years, and there is today a much greater emphasis on tied aid credit and cash grants as opposed to the basic human needs approach of past years. Together with the Eximbank Program, AID's contribution would provide tactical flexibility for today for the day-to-day support of business in facing these problems.

Business recognizes that it cannot expect the Government to be ready to match every foreign mixed credit offer. The important thing is there should be the possibility of support in meeting foreign offers. If there is no reasonable possibility, companies will understandably be reluctant to even spend the dollars.

The chamber is already firmly on record in support of separate funding. There must be assurance that Eximbank's direct credit program is not tapped to provide the necessary funds.

The chamber strongly supports the objectives of both the Competitive American Export Financing Act and the administration bill. We maintain the war chest bill should complement and not replace the program.

Further, we recommend to the administration that the program follow the approach of the Johnson bill, to involve all trade-related agencies rather than limit control to a single agency as proposed in the administration's bill. A strong Eximbank can signal our foreign competition that this Nation fully recognizes the importance of international trade and the realities of the marketplace and is prepared to meet the challenge of world competition.

We can put ourselves in a position to prove that when it comes to trade, the United States means business.

Before I close my statement, I would like to point out for the record an article in the Financial Times of Monday, September 23, entitled "Soft Loans Drawback to Export Subsidies Plan." I'll just excerpt from this article.

A new mechanism for subsidizing export loans designed to meet fierce and prolonged complaints from British industry is near completion. The mechanism being worked out by civil servants after advice from the banks is designed to give British companies a better chance when bidding against competitors, especially Japanese and French for big projects in the developing world. It will probably use the aid and trade provision, a small part of the aid budget of the Overseas Development Administration. If there is no new allocation of money now or after forthcoming public expenditure review, some leading exporters and their bankers will be greatly disappointed. A majority, however, appear to be more worried about the tardiness of the present procedure than by the size of the budget.

"The hope from our point of view is getting the funds early enough and quickly enough that it matters," a British industry official said.

The ministers propose to streamline the interdepartmental procedure for releasing these funds. They have already announced they are adding China and Indonesia and possibly others to the list of countries already eligible for subsidized loans. And they also widened the civil servants' present limited authority to initiate rather than merely match offers of soft finance.

The new scheme is designed to inject aid money, lending in a way that will make public funds go further. More importantly, the mixing of the credit will be done more attractively to present the borrower with a simple cheap loan contract. It is also important for ECGD not to appear to breaking informal rules set by the OECD.

It seems like a bit of deja vu relative to what we're talking about today, the British are setting up the mechanism.

Thank you, Mr. Chairman.

[The prepared statement of Mr. Sohn follows:]

Statement of the Chamber of Commerce of the United States

ON: TIED AID (MIXED) CREDIT PROGRAM

TO: SUBCOMMITTEE ON INTERNATIONAL FINANCE, TRADE AND MONETARY POLICY OF THE HOUSE COMMITTEE ON BANKING, FINANCE AND URBAN AFFAIRS

BY: STEPHEN SOHN

DATE: OCTOBER 23, 1985

The Chamber's mission is to advance human progress through an economic political and social system based on individual freedom incentive, initiative, opportunity and responsibility.

The Chamber of Commerce of the United States is the world's largest federation of business companies and associations and is the principal spokesman for the American business community. It represents more than 184,000 companies plus several thousand other organizations, such as local/state chambers of commerce and trade/professional associations.

More than 92 percent of the Chamber's members are small business firms with fewer than 100 employees, 53 percent with fewer than 10 employees. Yet, virtually all of the nation's largest companies are also active members. We are particularly cognizant of the problems of smaller businesses, as well as issues facing the business community at large.

Besides representing a cross section of the American business community in terms of number of employees, the Chamber represents a wide management spectrum by type of business and location. Each major classification of American business--manufacturing, retailing, services, construction, wholesaling, and finance--numbers more than 14,000 members. Yet no one group constitutes as much as 29 percent of the total membership. Further, the Chamber has substantial membership in all 50 states.

The Chamber's international reach is substantial as well. It believes that global interdependence provides an opportunity, not a threat. In addition to the 53 American Chambers of Commerce Abroad, an increasing number of members are engaged in the export and import of both goods and services and have ongoing investment activities. The Chamber favors strengthened international competitiveness and opposes artificial U.S. and foreign barriers to international business.

Positions on national issues are developed by a cross section of its members serving on committees, subcommittees and task forces. Currently, some 1,800 business people participate in this process.

STATEMENT
on the
TIED AID (MIXED) CREDIT PROGRAM
before the
SUBCOMMITTEE ON INTERNATIONAL FINANCE, TRADE AND MONETARY POLICY
of the
HOUSE COMMITTEE ON BANKING, FINANCE AND URBAN AFFAIRS
for the
CHAMBER OF COMMERCE OF THE UNITED STATES
by
Stephen Sohn
October 23, 1985

I am Stephen Sohn, President of International Management and Export Development Corporation (IMED), an international trade consulting organization. I am also chairman of the Export Finance Working Group of the Chamber of Commerce of the United States, on whose behalf I am testifying today.

Background

The Chamber has been an active advocate of a U. S. mixed credit program for several years. In fact, the practice was first discussed within the Chamber's committee structure in the mid-seventies. The creation of a U. S. program, in response to foreign mixed credit offers, was adopted as Chamber policy in 1980, as part of a comprehensive statement on national export policy in the report A National Export Policy: Recommendations for Expanding U. S. Exports. Subsequently, the Chamber was an active participant in the efforts leading to the passage of the Trade Development and Enhancement Act of 1983, which created a tied aid credit matching program in the Export-Import Bank (Eximbank) and in the Agency for International Development (USAID).

While mixed credits affect a relatively small portion of world trade, they are, nevertheless, an important segment. Ironically, this financing practice is generally limited to activities in which U. S. industry has a strong competitive edge, for sales in developing countries of strong economic potential, and in projects with considerable follow-on export prospects. When

U. S. companies lose to foreign government interventions, they lose much more than the identified sale. They realize that regardless of how competitive their product or service is, the competition can rely upon their government to more than compensate for their product's disadvantages with predatory financing support. The U. S. companies then have the option of supplying the overseas market from abroad, especially in countries that offer generous export financing, or abandoning all efforts to obtain the order.

In March 1984, I testified for the Chamber on mixed credits before the Subcommittee on International Economic Policy and Trade of the House Committee on Foreign Affairs. I believe it is pertinent to the situation today to recall, briefly, the thrust of the Chamber's testimony at that time.

The Organization for Economic Cooperation and Development (OECD) had made some partial progress in the negotiations to limit official export financing subsidies: but, because limits on tied-aid were not mandated, the volume of mixed credit commitments by foreign governments was escalating rather than diminishing.

We recognized the prospects for the newly legislated U. S. program to discourage foreign mixed credit were slim, indeed.

In assessing the ability of the U. S. program to make an impact on the foreign competition, we noted that success depended upon the same three factors as any other action program: sufficient resources to do the job, commitment and initiative in its administration, and timeliness in action.

In early 1984, it was clear that the Administration had not made any attempts to respond to its legislative mandate on the mixed credit legislation. We believe that the Eximbank and USAID had the financial means to deal with the prevailing level of predatory mixed credit financing, but they indicated that they needed special funding.

As to commitment, a growing level of appreciation for the importance of a U. S. mixed credit program was certainly evident in some parts of the Administration. Nevertheless, there was also evidence of widespread misgivings in the Administration regarding the need for a U. S. mixed credit program and the motives of business. While rightly concerned that the program not simply serve as an export subsidy program, caution in that regard exercised an inhibiting influence over direction of the program.

In view of these deficiencies with the U. S. mixed credit program, the Chamber's recommendations for improvements were directed to three major areas:

1) Allocation of a fixed amount of appropriated Economic Support Funds to support USAID's tied aid credit commitments in FY 1984, with similar provisions for future years.

2) Recommendation of the appointment of a mixed credit coordinator.

3) Encouragement of greater flexibility in USAID's and Eximbank's programs for speedier response to exporter requests and for matching higher levels of grant elements in foreign offers.

A detailed memorandum, entitled Operational Suggestions for Implementation of Eximbank and USAID Tied Aid Credit Programs, is appended to my submitted statement. The memorandum was prepared as part of the Chamber's work on mixed credits in early 1984 and is still valid in today's situation. The guidelines and recommendations developed by the private sector were submitted to the Subcommittee on International Economic Policy and Trade at the March 1984 hearing. The Administration did not act on them, but we maintain that they are still relevant.

Recent Developments in Mixed Credits

Eighteen months have elapsed since the Chamber made these points to the

Subcommittee. The changes in the international trade situation in that time have been dramatic and lend urgency to the need for speedy enactment of legislation to strengthen the existing legislation by providing funding and administrative mechanisms necessary for a successful mixed credit program. Foreign mixed credit offers have escalated and will amount to more than $6 billion in 1985, according to the OECD.

The scale of this burgeoning mixed credit activity underscores the importance of finding a way to eliminate the practice permanently. As Administration witnesses before this Subcommittee have also recognized, foreign mixed credits are taking business away from American firms that would have been theirs if the transactions had been on a purely commercial basis. Not only is this a national cost in terms of U. S.-based production and employment, but also it distorts the marketplace so that "purchase decisions are no longer made on the basis of price, quality, or service."[1] I have also appended an unsolicited testimonial to this trend, an article from the Times of India lamenting the delays and problems with a major power project under construction by a British consortium. This bid was awarded on the basis of a U. K.-provided mixed credit. But for that, the business would have gone to a competing American group.

While the mixed credit disease may be more advanced today than eighteen months ago, the same period has witnessed a dramatic turnaround in the Administration's commitment. The real significance of the proposed so-called "war chest" is that the Administration is now firmly on record to the effect:

(1) That foreign mixed credit activity causes serious injury to U. S. export interests.

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[1] H.P. Goldfield, Assistant Secretary of Commerce for Trade and Development, before the Committee on Foreign Affairs, Subcommittee on International Economic Policy and Trade, October 2, 1985.

(2) That special funding should be provided to help American exporters and to provide a negotiating tool to end this predatory financing practice.

(3) That the negotiations within the OECD have run into the reality that certain foreign governments regard mixed credit and related programs as extensions of domestic economic policy. As such, securing elimination of the practice will require an extraordinary international effort.

Recent Legislative Developments

The two mixed credit bills recently introduced, while representing different approaches, share the same objective, the ultimate demise of mixed credits [H. R. 3296 -- The Competitive Export Financing Act (Johnson, R-CT) and the Administration's "war chest" bill -- H. R. 3515 (Wylie, R-OH)]. The Chamber commends both Representative Nancy Johnson and the Administration for their initiative in responding to the plight of American exporters.

The Chamber believes that the U. S. mixed credit program should have a dual thrust: it should be able to support American exporters in the day-to-day mixed credit competition in world markets and it should also serve as an effective negotiating tool for bringing about the end of mixed credits.

H. R. 3515, the Administration's "war chest" proposal, would provide $300 million in funding for U. S. mixed credits. This is a bold commitment that is welcomed by American exporters. However, the "war chest" proposal appears to us to be focused too narrowly. By limiting offers to cases designed to offset and anticipate the mixed credit offers of France and other reluctant negotiators, American firms would be left defenseless against the very active ongoing programs of Canada, Britain, Germany, Japan and other so-called "good" countries.

The Administration's bill contains a sunset provision for September 30, 1987, while H. R. 3296 would expire when a satisfactory international agreement is secured. Although renewal of the "war chest" authority would presumably be sought by the Administration if needed, this does not provide a particularly secure basis for even short-range corporate export marketing plans. If anything, the doubts about the future of government support in mixed credit situations would encourage the tendency of firms to supply the markets in question from overseas subsidiaries; that is, for companies with that capability.

H. R. 3296 would strengthen the programs already established within Eximbank and USAID. We believe that the approach indicated in this bill should provide the basis for the U. S. mixed credit program and that the "war chest" should be a complement to that legislation, not a replacement for it. This bill would enable direction of the program to involve all trade-related agencies rather than placing effective control in a single agency.

The Chamber opposes the elimination of the existing programs in the Eximbank and USAID, as proposed in the Administration's bill. These two agencies have resources and staff experience that are crucial to the success of a U. S. program. Eximbank is accustomed to working with exporters in a timely fashion and has already developed a body of experience on foreign mixed credit activity even within the limited scope of the current program.

It is also important to retain USAID's mixed credit involvement, particularly now that funding has been authorized under the International Security and Development Act of 1985. The nature of our foreign aid programs has changed considerably in recent years. There is today much greater emphasis on tied aid credit and cash grants as opposed to the Basic Human Needs approach of recent years. Nevertheless, there is still a perceptible mindset within USAID that U. S. economic interests are not consistent with development objectives. In some cases, this may be true, but there are still a great many situations in which the two objectives are mutually reinforcing. Together with the Eximbank program, USAID's contribution would provide

tactical flexibility for the day-to-day support of business faced by foreign mixed credit competition.

Business recognizes that it cannot expect the government to be ready to match or preempt every foreign mixed credit offer. The important thing is that there should be the possibility of support in meeting foreign offers. If there is no reasonable possibility, companies will be reluctant even to consider making bids on projects in which a foreign mixed credit may emerge.

The Chamber is already firmly on record in support of separate funding for the U. S. Mixed Credit Program. There must be assurance that Eximbank's Direct Credit Program is not tapped to provide the necessary funds. Current budget restraints and realities mean that available funding will be limited, regardless of which approach or combination of approaches is adopted. For that reason, commitments for a mixed credit program should be viewed in the context of all government programs and measures to combat predatory export financing.

To divert already limited Eximbank direct credit into the mixed credit program would be robbing Peter to pay Paul and must be resisted.

Summary

The Chamber strongly supports the objectives of both the Competitive American Export Financing Act and the Administration's "war chest" bill. We maintain that the "war chest" bill should complement and not replace the present U.S. mixed credit program based on Eximbank and USAID. Further, we recommend that the administration of the program follow the approach of the Johnson bill, to involve all trade related agencies rather than limit control to a single agency as proposed in the "war chest" bill.

We believe that a strengthened program within the Eximbank and USAID would provide tactical flexibility for responding to the infinite variety in which foreign government offers, involving mixed credit and other forms of predatory financing, are usually made. American companies are losing business on a regular basis due to foreign mixed credits and need support now.

We appreciate the Subcommittee's interest in this issue of such importance to American business.

U.S. CHAMBER OF COMMERCE
EXPORT FINANCE WORKING GROUP
DISCUSSION PAPER
JANUARY 1984

Operational Suggestions for Implementation of Eximbank and USAID Tied Aid Credit Programs

Guiding Principles

1. The Export-Import Bank Act Amendments of 1983 enacted by Congress on November 18, 1983 (PL 98-181) establishes two separate but related Tied Aid Credit Programs (TAC) in Eximbank (Section 644) and USAID (Section 645) to try to neutralize the mixed credits offered by foreign governments in support of their exporters. The TAC programs are intended to be extremely flexible and are to be carried out in cooperation among Eximbank, AID, and private financial institutions, as appropriate to provide "financing for the export of United States goods and services which is substantially as concessional as foreign financing" offered to foreign competitors for a U.S. export sale.

Funds provided by AID to carry out the TAC program can be offered only to finance U.S. exports which can reasonably be expected to contribute to the recipient country's development objectives and "are consistent with the economic, political and security criteria used to establish country allocations of Economic Support Funds (ESF)."

2. These funds are to be used on a defensive basis to neutralize the competitive advantage of "mixed credits" offered by foreign governments in support of their national exporters. It is a purely reactive arrangement and therefore should have a streamlined approval process.

3. For U.S. exporters to effectively use this new competitive tool, it must be expeditiously administered to provide a basis on which decisions to bid and evaluations by buyers can be made. Under OECD guidelines, mixed credit offers containing a grant element of 20-25% require a ten day prior notification. Mixed credit offers of greater than 25% require "prompt" notification. Mixed credits with a grant element of less than 20% are not permitted under current OECD rules. For a U.S. program to be effective, competitive TAC commitments must be available to exporters on very short notice--i.e., less than ten days in most cases.

4. The decision process for Eximbank's normal credit application and commitment procedures in support of U.S. exports should not be affected by the fact that a TAC application may be made on the same transaction.

Program Recommendations

1. Program Coordination

Since Congress has directed both Eximbank and AID to establish TAC facilities, coordination of these two programs will be critical to successfully support U.S. exporters in competing against foreign mixed credit proposals. A single point of contact should be designated within each agency to coordinate exporter applications, TAC evaluations, recommendations, approvals and commitments. This can be accomplished in any of several ways.

a. Within Eximbank, Tied Aid Credit support will likely be associated with other Eximbank Direct Credits and Guarantees. The TAC program should therefore fall under the purview of the Senior Vice President for Direct Credits. In addition, to coordinate Eximbank's program both internally and in dealings with AID, the NAC and the exporter community, a Tied Aid Credit Administration Officer should be designated.

b. To give the USAID Tied Aid Credit Program sufficient flexibility, commercial orientation and ability to respond quickly, it should be administered separately from the current AID program departments. This can be accomplished through appointment of a separate Tied Aid Credit Administration Officer who will have overall responsibility for administration of the program and coordination with Eximbank, the NAC and the exporting community. It may be advantageous for this person to be physically located at the Trade and Development Program or even be under the direction of the TDP Director since this will help to provide a strong commercial orientation which TDP exhibits and is not found elsewhere in AID.

2. Roles of Eximbank and USAID

The legislation establishes two separate TAC programs in Eximbank and USAID respectively. These are to be carried out in coordination and cooperation with Eximbank's existing lending programs and/or with private financial institutions or entities. The program may include the combined use of Eximbank financing, guaranteed financing or private financing with concessional financing offered by AID and/or Eximbank, or grants offered by AID. The concessional financing or grants

may be blended with or parallel to the other financing on a transaction so that the terms offered are "substantially as concessional as foreign financing" offered by a foreign competitor.

Tied Aid Credits under this legislation are to support development-oriented transactions. The particular countries and types of transactions eligible for TAC support need to be specified by AID.

Both Eximbank and USAID will be involved in the TAC appraisal and approval process since one or both will be sources of funding. Eximbank is directly involved in the support of U.S. exports and is equipped to undertake the evaluation of transactions worldwide to determine economic and credit worthiness. The principal source of funding for concessionary TAC financing or grants can be USAID's unearmarked Economic Support Funds including, but not limited to, ESF funds allocated for Commodity Import Programs. Funding for a TAC may also be provided by Eximbank from its authorized lending authority.

For those eligible transactions where an exporter requests a TAC commitment to supplement other Eximbank financing, Eximbank should take the lead in evaluating the transaction, working with USAID to obtain an allocation of funding, and approving the transaction for commitment to the exporter or borrower, subject to consent by the NAC.

If the financing package does not involve any Eximbank financing, the exporter should apply directly to USAID for a TAC commitment to fund eligible transactions. If desired, USAID may then seek Eximbank's assistance to evaluate the credit worthiness of the transaction and its structure. AID will approve or turn down the request and issue a commitment to the exporter or borrower, subject to consent of the NAC.

Those transaction requests which are not approved by Eximbank and/or AID should nevertheless be submitted to the NAC for review.

3. Standby and Final Commitments

Since the program is purely reactive to foreign competition, and commitments must be given quickly to be effective, it is important to develop a pre-approval process based on satisfaction of specific guidelines for upcoming transactions on which mixed credit offers are expected to be made by foreign competitors. The commitment process could work similar to Eximbank's preliminary loan commitment process.

If a transaction is for a country and type of project that is likely to be supported by foreign mixed credits, as evidenced by prior deals, or the exporter has evidence or good reason to believe that mixed credits will be offered, application can be made to Eximbank or AID for a "standby Tied Aid Credit Commitment." This could precede or follow any official notification to the U.S. government under OECD rules that a mixed credit was being offered by a foreign government.

If approved on a timely basis, the standby commitment could provide the following benefits to U.S. exporters:

- Put foreign governments on notice in advance that any offer of mixed credits on a particular transaction would probably not provide a competitive advantage against U.S. exporters, thus discouraging the use of mixed credits--the primary objective of the U.S. government.

- Enable U.S. exporters to more clearly assess the competitive position of their proposals and avoid bidding on those transactions on which they may be uncompetitive due to lack of competitive financing. This will help make U.S. firms more price competitive since the costs and risks of unsuccessful bidding can be reduced.

- Would permit the recipient/importer government to know that there is a competitive alternative to the foreign mixed credit, before a decision is reached.

Standby commitments for TAC funding can be converted to Final Commitments upon reasonable proof that a mixed credit has been offered on a transaction, satisfactory terms and conditions have been negotiated with the borrower, and the U.S. exporter has been awarded the sale. Eximbank and/or AID will need to approve the final financing arrangement, subject to consent of the NAC.

4. Funding

The legislation authorizes the Administrator of USAID to establish a fund to carry out the TAC program. A target sum of $100-$150 million of appropriated ESF funds should be reserved to support AID's TAC commitments in FY 1984. An additional allocation of this amount should be specifically requested in USAID's FY 1985 budget, with carryover authority. In the event the funds are not used, they could be reallocated to other ESF programs or carried over to the next year. Eximbank should be able to provide TAC concessionary financing from its long-term lending program without impairing its capital resources.

5. Information Networks

Since the TAC program is meant as a defensive tool, an information system that identifies prior and likely future mixed credit transactions is essential for success.

The Foreign Commercial Service, in cooperation with other government agencies and the private sector, should develop, as quickly as possible, a comprehensive system to monitor mixed credits offered by other countries, noting country of origin, borrower, amount, terms, type of project and competition. This information should be shared with Eximbank, AID, the NAC and interested U.S. exporters in order to provide an advance warning system of the types of projects and countries in which foreign competitors are currently offering mixed credits.

Procedural Recommendations

1. Exporters or their financial advisors should submit applications for TAC's or standby TAC commitments to the appropriate Officers at either Eximbank or USAID, with a copy to the other agency. The application should be supported by the following information:

- o Sufficient project information to determine the credit worthiness of the borrower and whether the transaction meets AID's developmental and other ESF criteria.
- o Evidence or reason to believe that foreign competition will offer mixed credits on this transaction. This may take the form of an affidavit from a corporate officer outlining known details; customary market practice; or client provided information.
- o Details of commercial aspects of the proposed transaction including the financing package--e.g. Exim loan or guarantees; commercial bank loans; supplier financing, PEFCO, etc.
- o Deadlines for bid submittal and financing commitment.

2. The AID Administrator or Eximbank Board, as appropriate, would review and approve or deny the TAC application. Under the legislation, the NAC needs to "unanimously consent" to this approval or denial. The recommendation should be made independent of any other Eximbank financing approvals for the project. The standby commitment recommendation should contain the amount, type and terms of the TAC, but also provide sufficient flexibility for Exim or AID to work out a competitive mixed credit package for each transaction.

3. Time is of the essence in competing against foreign mixed credit proposals. To be effective, the time required for evaluation and approval on a TAC Standby commitment application should be no more than fifteen working days, with an additional five days for consent by the NAC. However, on an emergency basis, eg. notification of a mixed credit by a foreign government under OECD regulations, the approval should be given in a total of ten days or less.

4. Upon consent by the NAC, AID or Exim will issue a TAC standby or final commitment to the exporter, subject to:

a) Reasonable proof that mixed credits were offered by foreign competitors, and the award of the contract to the American exporter is dependent on neutralizing this foreign competitive edge.

b) Satisfactory arrangement of financing to supplement the TAC, from Exim or other sources, sufficient for the transaction to close.

c) Finalization of a contract with the U.S. supplier.

5. Notification of the TAC final commitment should be given to foreign governments, as required under OECD guidelines. It should not be necessary to give notification of standby commitments.

6. Authority to approve TAC Standby Commitments should be delegated by the NAC to the responsible Eximbank and USAID authorities up to the level of $10 million of grant element per commitment.

7. The experience under the above arrangements should be reviewed semi-annually with the Eximbank Advisory Board attended by representatives of USAID and the NAC, as appropriate.

(TEXT OF ARTICLE FROM THE TIMES OF INDIA, SEPTEMBER 9, 1985)

As a recent report in this paper has shown on the basis of official documents, the 1,000 megawatt Rihand superthermal power project in Uttar Pradesh has irretrievably slipped behind schedule. It is no longer possible for anyone, least of all for Northern Engineering Industries (NEI), the British turnkey contractor, to pretend that the power station will be completed on time. Another U.K. agency, British Electricity International (BEI), a subsidiary of the Central Electricity Generation Board of that country and a consultant-adviser to the National Thermal Power Corporation, has estimated the delay at 12 to 15 months. It has also warned that unless NEI improves its project management considerably, the commissioning of the plant could recede even further, into 1988 or 1989. Clearly, this is a serious matter: the real direct cost of delay, on account of interest alone, would run into Rs 100 crores a year or more, and the indirect loss in industrial and agricultural output on account of power scarcity would be even higher. It is beyond dispute that the primary responsibility for the slippage of the project is traceable to NEI. As BEI has pointed out in a report to NTPC, the consortium of British contractors and suppliers has failed to perform to schedule and to meet standards. Not only has it been unconscionably late in suplying vital equipment packages it has not even submitted half the designs for the project to NTPC. Some of the gear supplied has been defective too. And BEI has itself expressed strong reservations about NEI's project management capabilities.

This raises a number of issues. The Rihand project is meant to be financed mainly by the British government through grants-in-aid (a little under £120 million) and export credit (a little over £340 million). That, however, leaves a little over a third of the total cost of the station to be met by NTPC and public funds, which is one excellent reason why NTPC and the Union department of power should take a keen interest in ensuring that the project is put back on the rail and does not get delayed any further. Secondly, there is just no reason why the British government should hesitate in pinning down responsibility for the snarl-ups that have occurred or in asking BEI and NEI to help NTPC actively to sort out outstanding problems. And finally, the Rihand case makes it plain that official agencies should not assume, even where bilateral agreements and aid are involved, that the turnkey contractor can be left to do the job without close supervision of schedules and strict checks for quality. This should serve as a lesson for the other two turnkey power station projects that are now in the pipeline.

Chairman NEAL. I am not clear, Professor McCulloch, what would your recommendation be?

Professor MCCULLOCH. As a negotiating strategy, given the month of working leadtime that we have, increased resources for the matching of other countries offers, so that no country can gain a commercial advantage by its mixed credit strategy, could help. To use a shootout, as I suggested, not only would it inflict costs on countries that aren't necessarily obstructing progress toward our negotiating goal, but also, I think, sets a very negative tone for the broader, multilateral negotiations that we have coming up in the next year.

Chairman NEAL. Well, now, I don't think—maybe I didn't hear it correctly, but I don't think anyone is recommending us engaging in the practice of mixed credits just for the sake of promoting exports, are they? Are any of our witnesses recommending that?

Professor MCCULLOCH. That is how I interpret the so-called preemptive approach: To go in first with a mixed credit offer.

Chairman NEAL. Let me say, that is not how I interpret it, nor do I think that is the interpretation of our witnesses, but if I am wrong, I would like for them to speak up and say so, although I think, and I would like to get anyone who wants to, to comment on this, that we might be well-served by, once we establish which agency or agencies should handle this, that they be given enough flexibility, so that their actions are not entirely predictable, which might then let them engage in a preemptive strike at some point, if they have good information. They might be facing this kind of competition at some point. I just think that might be better. I am not sure.

I could certainly be convinced otherwise, but that approach might be better than just announcing in advance that we are going to match every or any or some mixed credit financing on the part of others. Of course, our goal, I think, and I think all of you have agreed with us, is to end the practice on the part of others. It is not to set up a program whereby we engage in the product of some mixed credits for a long time to come. The sooner we have to end it, the better, it seems to me.

Professor MCCULLOCH. To me, it seems important to see this issue in the broader context of the many trade disputes that we have going on and our broader goals for rules to limit many kinds of abusive or distorting practices. With the new GATT round coming up next year, it seems especially important to stay within the rules that have been already agreed to in the OECD and to continue a matching approach. Whether we could inject an element of unpredictability, by not matching every offer, I suppose that is a possiblity. But then that would mean our trading partners could count on gaining some commercial advantage. They would be playing the odds on it.

On the other hand, to match every offer means perhaps more financial resources than we have available. It is not clear how much we would have to have potentially available, because offers and loans made are two different things. Presumably the offers made by other countries would also be affected by the policy of matching everything.

Chairman NEAL. As far as who should administer, who should be in charge of it, I certainly welcome all of this advice. I would like to state a position and then get you all to shoot at it a little bit. It would seem to me that the Eximbank has the most experience in this area, that Treasury could develop some experience, I guess, but they don't really have it, and they have not been for this kind of approach in the past.

AID—well, I just don't know whether they have any experience in the area on the commercial side that would be valuable here. They know how to give money away, but that isn't our purpose here.

So anyway, it seems to me from what I've heard so far and thinking about it a little bit that maybe Exim would be the place where this fund ought to be lodged. They would be able to use it in a somewhat flexible way.

Any other comments?

Mr. HOLLINSHEAD. Just to reinforce that, Mr. Chairman, in the prepared remarks I submitted to your committee, we made it quite clear we think that Eximbank is the preferable agency to administer the program.

Chairman NEAL. Anyone else? Mr. Berry?

Mr. BERRY. One of the things about the legislative draft is, it assumes, or it makes it seems that the Eximbank has a very minor role to play. The Treasury officials we have talked to would say that basically everything is going to be done—or most everything is going to be done in the Eximbank, you know. That is where you go. Those are the people who collect the information. That is where they have these, you know, sensors of market developments. That is the way the legislation is presented. It has confused, I think, most of the people in the exporting community as to what role the Eximbank and what role the Treasury really will play.

Chairman NEAL. That is another point. You would establish some accountability with the Exims maybe, and there wouldn't be any opportunity to pass the blame around to AID or Treasury or someone else. Either they do it or they don't do it.

Any other comments? Steve?

Mr. SOHN. It is quite interesting, the article I read to the subcommittee, the United Kingdom are lodging it in ECGD, which is the British equivalent of Eximbank, obviously, this will reinforce what all the other representatives of the business community have stated, Exim has the experience. There's no two ways about it.

My only reservation is, and I don't know if it is real or what but relative to the ability of Eximbank to—I don't know if dictate is the right word or not—but to tell or request AID to join with them in providing the funding, if we end up with split funding between Exim and AID, AID basically providing the soft side of the loan. There has always been this conflict—even going back when we originally developed the competitive financing bill under the Carter administration—between John Moore and the then-chairman of AID where each said, we will run it. No one was really willing to take hold of it. It was politics. That is my only fear. Will the AID director or chairman listen to Mr. Draper or whoever is running the bank—you will participate with us for *x* bucks at this and this rate. That is my primary concern. But certainly the experience

and the ability to do it is in Exim more than any other agency in the Government.

Chairman NEAL. It would seem to me, just going through the various elements of the bill briefly, that if we place the money and authority and the responsibility with Exim, if we are stuck with the $300 million figure—and as a practical matter, that's probably all we can get—if we have this program sunset, when an agreement is negotiated, instead of setting some date certain, if we left some flexibility with Exim to manage it in both an offensive and defensive way, that we might have the workings of a pretty good bill.

Does that strike you all as reasonable?

Mr. HOLLINSHEAD. Mr. Chairman, I think that hits most of the high points of it. I guess I would add that I think there was unanimous agreement among the people here from the private sector justifying that there should be some kind of continuance of the existing 1983 legislation for AID.

Chairman NEAL. We don't have any control over that really. That goes before another subcommittee, and I guess I don't know what to say about it. Have they done much with it?

Mr. HOLLINSHEAD. No, the mentality——

Chairman NEAL. Do they care about it? I don't think so. Do they know anything about it? There is no evidence that they do. Could we do anything about it, if we wanted to? The answer, I think, is now. You know, they are going to hold hearings. They are going to do something. Do they work closely with Exim or Treasury? I don't think so.

I think I understand the arguments. It is an expanded program, and so on, but honestly, we don't have much to do with it.

I really don't know at this point what to say. We do have the Eximbank authority. I'm just sort of thinking out loud with you, but it seems to me that what we ought to do is to help the best we can and pass the bill and see what they do.

Mr. LEVIN. Might I add that the administration testifies that they were supportive of AID's involvement in the effort.

Mr. HOLLINSHEAD. All of the above is true of what you have said about AID's mentality and position in the past on mixed credits. It has not had very strong support certainly, but as I understand it, the administration's bill would terminate that particular piece of legislation.

That is why I was addressing it to your committee.

Chairman NEAL. We can't do that anyway. We don't have the authority to.

And let me just point to another problem in passing. If we come up with something reasonable and then sequentially refer it over to the Foreign Affairs Committee, I would not venture to guess what it would look like when it came out of there.

I think we are better off trying to do what we think makes sense and do what we can with it.

Mr. Kolbe?

Mr. KOLBE. Thank you, Mr. Chairman. I want to commend the chairman and the staff for 2 days of very good hearings. The testimony that we have received this morning, as it was last week, has

been very, very helpful, highlighting some of the issues that are involved here.

As I listened to much of the testimony this morning, particularly that of Mr. Berry and Mr. Hollinshead, it seems to me there is a good deal of kind of schizophrenia involved as to what really we are trying to do with this legislation.

On the one hand, both have suggested that we understand the objectives really are to get other countries—or it is a negotiating stance to get other countries to eliminate their tied credits program.

Then on the other hand, we hear that it really ought to be left in the Eximbank for both defensive and offensive management of the program.

It seems to me if we are in agreement that the real objective of this is to achieve some kind of negotiating position or rather to achieve some kind of negotiating objective with other countries to eliminate this kind of aid, and certainly that is my objective because I think all of us find this kind of particular mixed credits to be offensive in terms of its interference in the marketplace.

If that indeed is our objective, then it seems to me that a very sound argument can be made for Treasury having the lead on this. They are, after all, the ones that have to negotiate these changes. They have to negotiate these agreements with the other countries.

There is no doubt in my mind that Treasury and Eximbank have both made it clear that Eximbank will have the responsibility for doing the analysis, for doing a good deal of the work in order to make the decisions, but Treasury has the clout. It is handing them the hammer. Instead of, as has been suggested here, that it diffuses it, it seems to me it concentrates the power that we are asking for here, putting it with the people who are sitting down at the table and doing the negotiation.

And the point was made that the British have put it in their counterpart to the Eximbank. It seems to me that is an indication that the British are engaged in some very different objectives in their program than ours is. Ours is a negotiating stance.

And I guess my point—and then I will ask you just to comment or respond to it, any of you—is that some of us get a little dubious, a little doubtful, when we hear this suggestion that we have $300 or $500 million—and I think a very good argument that the amount needs to be increased in order to be meaningful, but that it ought to be in the Eximbank—and we get doubtful because we wonder are we really looking at the objective of eliminating this kind of credit or are we looking for another entitlement program in Eximbank.

Mr. HOLLINSHEAD. If I may respond to that, to your last part.

We are not looking for another Entitlement Program. We would be happy, as anyone should be, when the program can be terminated because we then do indeed have a viable OECD agreement.

I think our feeling about the Treasury Department and the administration, certainly they should be involved as a key player, but we don't think it really undermines the negotiating part of the carrot stick approach here if the Treasury does the negotiating and the Exim does the administrating of the program.

We don't think it really undermines the Treasury's negotiating strength if indeed it is Eximbank that does the administration of the program It is simply because we as exporters have had years and years of experience in dealing with Eximbank. We know where to go. If we want to get a particular piece of finance for Africa or for Latin America, we know how to deal with that administrative structure.

It is in existence, and therefore when we know the people. It doesn't require setting up another kind of administrative structure. So we feel that Eximbank should be the lead in administering the program.

Now, obviously before any particular decision is made, Treasury is going to have a significant role in saying, OK, we agree with you, Exim, this is a particular country who has been practicing mixed credits and we think you should go ahead and target that particular country.

It may be semantics, but I guess what we are saying is as exporters we have dealt with the Eximbank, we know the process, we know the people, therefore it makes sense for us to continue to deal with them, and, if you will, the behind-the-scenes tussle between Exim and Treasury as to whether a particular mixed credit is granted in a particular case is really up to the two institutions.

Mr. KOLBE. It probably is more than semantics here because you put an emphasis on it that makes it clear why you are coming from where you are.

From the exporter's point of view, I can understand, dealing with the agency that you have dealt with before that has the expertise and people you are familiar with and the offices you are used to finding the doors to down there.

But I keep coming back to the point: the objective of the legislation is to give a tool, a negotiating tool to our people. If that is the objective, then it seems to me a good case can be made for placing it in Treasury.

Mr. Berry?

Mr. BERRY. One of the things about the legislative draft is that the people in the Treasury who drafted it, it doesn't seem to me that getting rid of an Eximbank or AID role enchances the negotiating position of the Treasury. It seems to me the legislation does enhance with the $300 million fund Treasury's role.

Treasury now has a veto over everything that happens in this area anyway. So the question is what is the negotiating advantage of relieving Eximbank or the AID of its responsibility, and that does seem to be a side issue and a kind of unnecessary part of the legislative draft.

Mr. KOLBE. One final question of Professor McCulloch.

I am kind of interested in your response to the chairman of the committee when he outlined—he said there were these changes made. Would you be in agreement that we have all the witnesses, that we have the elements of a bill here?

From listening to your testimony, I don't think you would be in agreement. Am I correct?

You changed the date, you put it back in Eximbank.

Professor MCCULLOCH. I don't know about putting it back in Eximbank. I think as a practical matter actual loan packages set up

would have to go through Eximbank, but who should have the decisionmaking power over what to match and how?

You Congressmen probably know better than I where that responsibility should rest.

Ben Crane handed me, before our session started, a press release from Eximbank which reinforces my doubts about how Eximbank plans to use the funds. This says in three cases in markets previously dominated by other suppliers Eximbank wants to come in with an aggressive use of credit and financial terms more favorable than the mixed credits already offered by the other countries.

Then there is another case where they are just going to do matching.

And somebody mentioned also at the beginning of the meeting that the United States in some of these offers is prepared to go below the 25-percent minimum grant element embodied in our current agreement within the OECD.

I think there are no confirmed cases in which the other participants have done this. So this is indeed an aggressive strategy that goes beyond mere matching of terms offered by other countries.

Mr. KOLBE. Dr. McCulloch, the basic question I guess I would have is—you made your point earlier in your testimony that the question whether or not this was needed since we have made some progress in some of the negotiations to date.

I would agree to some extent. I am not sure we have made the progress we would like. We still have a ways to go.

What is wrong with giving your negotiators—if you have made some progress, handing them a slightly bigger club when they sit down the next week at the table for the next round of negotiations?

Maybe that just enhances negotiations a little more.

Professor MCCULLOCH. Maybe it does, but what in the long run the United States has been pushing for in the GATT and in the OECD is a rule of law at the international level. To use a club that entails violating the international agreements we have already made within the OECD seems a dubious negotiating strategy, even taking the limited issue, and a dangerous one, at the very time that we are trying to get other countries to go along with an extension of that rule of law to cover many issues, including services, investment, and so on.

We are moving toward our goal and as recently as April 1985 did get a further response from the other members of the OECD that moves us in that direction by a not negligible amount. Maybe we are stalemated. If so, maybe we should think of a positive approach rather than a club.

There are many issues on which we would have something to give where we are in violation of GATT rules. We could give up on one of those issues and say these concessions will apply only in the event that the other members of the OECD come to see our point of view on this issue.

That would be an alternative strategy where mutual gains would be possible.

Mr. KOLBE. Thank you, Mr. Chairman.

Chairman NEAL. Mr. Levin.

Mr. LEVIN. Just quickly.

I didn't hear you. You said there was no example of what—where other countries have offered?

Professor McCULLOCH. As far as I know, the other countries' mixed aid packages have not been shown to violate the guidelines agreed upon so far in the OECD; that is, of a minimum 25-percent grant element and a minimum of 20 working days' notification of the offer.

There have been cases where it is questionable, but there is no firm evidence that I know of—maybe people from the business community can tell us differently—nothing has been reported in the press of an instance in which there has been clear violation of the already agreed-upon guidelines.

So what we are saying is we don't like the guidelines that have been agreed upon; therefore, we are just going to do something completely different for a while, till everybody plays by our rules.

Mr. LEVIN. Of course, the press release from Exim doesn't say necessarily that it would be in violation. It says more favorable than those contained in mixed credits already offered by those countries.

It is very possible that those mixed credits were beyond the point allowed. So I think you have to see in particular, but I must say—and I am sorry I missed your testimony—I think underlying your testimony, as I have scanned it, if I might say so, is a much lesser uptightness about what has been happening to the manufacturing and industrial base of America than a lot of us have.

Professor McCULLOCH. That is right.

Mr. LEVIN. Your point of view, I think—I don't mean this too curtly—is quite academic.

Professor McCULLOCH. If you mean academic in the sense of irrelevant, I am sorry. [Laughter.]

Mr. LEVIN. I mean theoretical.

And it goes back to the earlier paragraphs of your testimony about the loss in exports.

I didn't mean irrelevant, but I meant somewhat theoretical.

And the whole issue of out-sourcing, for example, that flared up in the recent negotiations with Chrysler, the long-term trends unless there is a reversal.

I had a chance when I was with AID to travel through parts of Africa, and it was mixed credits coming out of ears that the French used.

But, you know, it wasn't only mixed credits. There are other practices that are used, and for us to think of using something aggressive, more than the offers of other countries, when there are other practices involved, I don't think it should seem too startling.

I would just like to say about the notion that Eximbank shouldn't be at the center of this, the Treasury Department should be because they are doing the negotiating.

I remember the vote on the MX missile. The main argument was that you should give the Secretary of State and our arms control people a bargaining chip. No one suggested that the MX missile production be shifted from Defense to State.

It makes no sense at all to say that because agency *x* is doing the negotiating they have to run the program. I mean, I don't think Exim is perfect. God forbid that anyone say that.

Chairman NEAL. I don't think anyone is suggesting that.

Mr. LEVIN. You know, they've followed marching orders of the Treasury before. They did it last year, and Mr. Draper had to come up here and give the administration line on mixed credits. I don't blame him. When I was in the administration, I expressed the administration point of view. If I didn't agree with it to the fullest extent, I should resign. I don't blame Mr. Draper, but he can take marching orders. That doesn't mean Treasury has to run the program. It doesn't make any sense to shift it from the operation agency to the negotiating.

So I think the testimony of the others is very cogent, and I would just urge, if I might, to you, Professor McCulloch, that you look at what's happened the last month. Why was this press release issued? I think in substantial measure, at last the momentum for movement has reached a point where even those who are sitting on their hands are moving and they are just actively trying to catch up with the string. And what you are really saying is, well—I read your testimony as a kind of shrug of the shoulders, an intelligent shrug, but a shrug of the shoulders. And if you think, and I'm not saying there aren't any abuses on our side, and I am not saying that American business people have been aggressive enough. They know how I feel, and I represented some of them in 1981 and 1982.

I think we do a poor job of marketing ourselves overseas in the private sector, the public sector, in teaching people how to speak some language other than English. You know, all of those things. But a shrug of the shoulders and saying more of the same, I don't see where it takes you.

Professor MCCULLOCH. Excuse me. I am saying something a little bit different from what you suggest. I am saying that although this is a strategy that can create additional exports for particular firms, it does not necessarily expand our total exports. The reason is that it does not create new resources, it merely reallocates them, so that if we push credit into particular pockets where our trading partners are doing so, we are pushing it away from other firms that need to get their credit through commercial channels. When you pull a can out of the bottom of the stack at the supermarket, the other cans do not stay in place.

Credit market conditions change for all borrowers, and that is going to have ripple effects throughout the economy, including sectors that export, including construction, including autos, and so on. The effects will be small and they will be spread out. Whether you wish to concentrate your financial resources in one particular place is a legitimate question. But I am arguing that you should not feel this is a way of expanding the industrial base. There is no evidence that it would be.

Mr. LEVIN. It may not expand the industrial base, but it may allow certain sectors of the industrial base to be there when there is expansion. And I don't think it is alarmist to say that certain parts, critical parts of the American industrial base are in jeopardy, and although you know much more about it than I, but my last point, I don't think any economist thinks that the universe of credit is limited.

Professor MCCULLOCH. Is there something in this program that would increase incentives for saving? I missed it in the legislation.

Mr. LEVIN. No one is saying that, but if you wait for the perfect circle of action to do anything about a particular piece, you will never do anything.

Professor MCCULLOCH. You misunderstand my message.

I am saying that this may be a strategy that will affect our negotiating position, positively or negatively, depending on how we pursue it. But it is not a way of shoring up our industrial base or employment. That is because we're borrowing from Peter to pay Paul, as we do with any supported export-credit program.

Mr. LEVIN. I don't quite know how to respond to that, because no one is suggesting that in and of itself this is going to work miracles. What we have done around here is to pass a bill a number of years ago that was supposed to create a miracle. It has created, in part, a nightmare of deficits. And now, including many of the people who proposed that miracle, they are saying, anything that is proposed to alleviate it doesn't settle the whole problem, so do nothing about a particular piece.

I think that is just a ticket to continued deterioration within certain economic sectors of America. At least you have to acknowledge the trend line is in that direction, and I think the burden is on people like yourself to suggest how we are going to reverse the trend line, unless you are satisfied to let a trend continue, so that we have not a drop from $66 billion to $52 billion worth of manufactured exports, but down to $42 billion and $32 billion.

Are you going to say the same thing when we are down to $32 billion?

Professor MCCULLOCH. My impression is that the reason for the fall of our exports to Latin America is very much not the issue of mixed credit, but as I say in my testimony, the commercial credit problems of Latin America and the depressed prices of primary commodities, neither of which would be affected by this legislation.

Mr. LEVIN. I agree. The primary problem isn't. This is just a small bump on the log of some action. The question is, whether it's worth it.

Well, thanks. I hope we can take the wisdom from this panel and the previous panel and put together a program.

Chairman NEAL. Thank you, Mr. Levin.

We thank our distinguished panel. We will welcome your thoughts as we go along. We are going to try to mark up something pretty soon. If you have any further thoughts, let us have them soon.

The subcommittee will stand adjourned, subject to the call of the Chair.

[Whereupon, at 12:10 p.m., the hearing was adjourned.]

TO AUTHORIZE APPROPRIATIONS FOR TIED AID CREDIT

WEDNESDAY, NOVEMBER 6, 1985

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON INTERNATIONAL FINANCE,
TRADE AND MONETARY POLICY,
COMMITTEE ON BANKING, FINANCE AND URBAN AFFAIRS,
Washington, DC.

The subcommittee met at 11:03 a.m. in room 2220 of the Rayburn House Office Building, Hon. Stephen L Neal (chairman of the subcommittee) presiding.

Present: Chairman Neal; Representatives LaFalce, Levin, Kleczka, Leach, Parris, Grotberg, and McMillan.

Chairman NEAL. I would like to call the subcommittee to order at this time.

This morning we are holding a final brief hearing on the tied aid credit proposals before our scheduled markup tomorrow.

We certainly appreciate Chairman Draper agreeing to appear again before our subcommittee to clarify some questions that have arisen about the Eximbank's mixed credits program and the administration's request for a tied-aid credit fund.

The subcommittee is especially interested in two particular items. First, we would like a clarification of Exim's authority to offer tied aid credits, which contain a substantial grant element. This question has arisen because of Mr. Draper's statement at our hearing on October 16 that Exim does not have any authority to make a grant. One week after the Chairman's statement, Exim, on October 23, issued a press release describing new tied aid credit offers that the Bank was making on its own authority.

Second, the subcommittee would appreciate a further explanation of why the administration is requesting Congress to appropriate money for a new grantmaking war chest if Exim already has ample authority and funds to initiate aggressive tied-aid credits of the kind announced on October 23.

With our soaring budget deficit, it may be difficult for Members of Congress to support a supplemental appropriation of $300 million, as the administration has requested, unless we can have very good arguments for it.

Are there other Members who would like to make opening statements?

Mr. LAFALCE. Mr. Chairman.

Chairman NEAL. Yes, sir, Mr. LaFalce.

Mr. LAFALCE. Mr. Chairman, I don't know exactly when, but I think it was approximately 2 or 3 weeks or so ago that we had a hearing of this subcommittee where we had Mr. Draper and I believe Assistant Secretary of the Treasury Mr. Cornell testify.

There were many questions that arose. One of the questions was whether Eximbank had the authority to give grants. And the answer was a definitive "no."

Now I asked whether or not being able to give concessionary loans bringing the interest rate down to zero percent wasn't tantamount to a grant. Again, the answer was "no."

On October 23, 1985, Eximbank put out a press release, a copy of which I would like inserted in the record, in which they indicated that, in effect, they were giving grants, which I understand that they're now going to make a big distinction between a grant and a grant element.

It's a distinction they didn't make at the hearing 3 weeks or so ago. This might just be academic, but we do have to understand what the authority of Eximbank is and what it has been. If we're having a change in policy, we have to understand that we're having a change in policy, too.

But another question that was raised at that time was who would administer the fund and whether Eximbank, if they did have authority to make grants or concessionary loans that were tantamount to grants, whether they couldn't use their existing resources.

Mr. Cornell, the Assistant Secretary of the Treasury, said specifically that the Reagan administration initiative of $300 million is neither for export promotion, nor economic development assistance, and the Eximbank should not be asked to administer it.

As a matter of fact, Mr. Cornell suggested that it would be inappropriate to have Eximbank involved in the determination of the use of this $300 million because it would be tantamount to a perversion of the Eximbank's mission.

In the press release of October 23, no mention was made of the Treasury Department. It said,

> Although Eximbank will issue preliminary commitments for these transactions under its own authority, it anticipates that the $300 million grant fund proposed by the President will cover the grant element in Eximbank's offers, once the enabling legislation is enacted by the Congress.

That makes it sound to me as if Mr. Cornell didn't know what he was talking about, or Mr. Draper didn't know what he was talking about 3 weeks ago, or they knew what they were talking about and now have changed their mind, although now I understand, in the testimony today we will hear that this $300 million they want is to go to Treasury, but Eximbank is going to be making some initial determinations and then they are going to be going to Treasury for approval.

I don't know whether these initial determinations by Eximbank are going to be made for the purpose of export promotion or if they're going to be made defensively. Treasury said one of the reasons they didn't want Eximbank involved in this $300 million war chest was because they didn't want a defensive program and it wasn't tied to export promotion and development. It was to be used

offensively by the Treasury Department in order, I think, ultimately to get others to eliminate their use of mixed aid credits.

I think in fairness to all, I think we can say that at least confusion exists regarding precisely what the administration has in mind under existing law, what they have in mind if the legislation they advanced is enacted into law.

And that's why I'm grateful, Mr. Chairman, that you called this hearing in order to help clear up the confusion.

Thank you.

[The press release of the Export-Import Bank of October 23, 1985, referred to by Congressman LaFalce follows:]

Exim News

THE OFFICE OF PUBLIC AFFAIRS
TELEPHONE (202) 566-8990

FOR IMMEDIATE RELEASE:
October 23, 1985

EXIMBANK IMPLEMENTS AGGRESSIVE PROGRAM TO COMBAT TIED-AID CREDITS

Following through on President Reagan's attack on the unfair trade practices by foreign nations, the Export-Import Bank of the United States has begun implementing an aggressive program of combatting predatory tied-aid credits.

"Eximbank plans to offer highly concessionary financing terms in six transactions, totalling over a quarter of a billion dollars of potential U.S. exports," Export-Import Bank President and Chairman William H. Draper III announced today. "Our proposed actions are targeted against countries that are hampering the progress of international negotiations to eliminate these predatory practices. They are intended to pressure those countries to end the insidious practice of using foreign aid or mixing scarce foreign assistance funds with normal export credits to buy an otherwise commercial contract." All the transactions involve intense international competition for sophisticated equipment and services which should be financed on commercial terms. None involves a project for which foreign aid funds should be used.

Draper said that the U.S. bidders in each case are considered to be competitive on price, technology, performance and other commercial factors. In three cases, Eximbank is prepared to initiate a mixed credit to assist U.S. suppliers penetrate markets that have been dominated in the past by those countries impeding negotiations.

EXIMBANK
EXPORT-IMPORT BANK OF THE UNITED STATES
811 VERMONT AVENUE, NW
WASHINGTON, DC 20571

In two others, Eximbank is prepared to offer financial terms more favorable than those contained in mixed credits already offered by these countries. In the sixth case Eximbank and the Agency for International Development (AID) combined to match a foreign mixed credit offer.

Eximbank is currently taking the necessary steps to implement these transactions. In keeping with the guidelines agreed to by 22 OECD nations, Eximbank is providing advance information to the other participating nations that its offers will be made within 20 working days. Each of Eximbank's mixed credit offers will contain a grant element of at least 25 percent. Eximbank has already obtained the unanimous backing of the National Advisory Council for these transactions.

Although Eximbank will issue preliminary commitments for these transactions under its own authority, it anticipates that the $300 million grant fund proposed by the President will cover the grant element in Eximbank's offers, once the enabling legislation is enacted by Congress.

- END -

EXIMBANK

EXPORT-IMPORT BANK OF THE U.S.
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DEFINITIONS OF MIXED CREDIT TERMS

Definitions:

Grant	An outright gift.
Soft Loan	A concessionary loan at rates and terms more favorable to the borrower than an OECD Consensus loan.
OECD Consensus Loan	An export credit made at rates and terms specified in the OECD Arrangement (Consensus) on Official Export Credits.
Mixed Credit	An export financing package consisting of an OECD Consensus loan combined with a soft loan or a grant.
Tied Aid Credit	A mixed credit or a soft loan to a foreign buyer for the purchase of the donor country's exports.
Grant Element	A technical term used to measure how concessional a loan is. The grant element in a loan is defined as the difference between the original face value of the loan and the discounted (at 10% under OECD convention) present value of debt service, as a percentage of the original face value. By definition the grant element of a grant is 100%, and the grant element of an OECD Consensus loan alone is 0%. The minimum allowable grant element of a mixed credit or a tied aid credit under OECD Arrangement is 25%.

EXAMPLE

A mixed credit is extended to a foreign buyer conditioned (tied) to purchase of the donor country's exports. The total value of the export to be financed is $100,000,000.

The mixed credit can be in the form of an official export credit at OECD Consensus rates and terms currently in effect, plus (a) a soft loan or (b) a grant.

(a) If soft loan:

Assume the soft loan is at 2% interest repayable in equal semi-annual installments over 30 years. Using the OECD rules for calculating grant elements, the grant element for this soft loan is 53.92% (see attached OECD Grant Element Table). By definition, the grant element of the OECD Consensus loan portion is 0%. The mixed credit consists of the following parts:

Soft loan	$ 55,638,000
OECD Consensus loan (0% grant element)	44,362,000
	$100,000,000

The overall grant element of this mixed credit is 30%.

$$53.92\% \times \frac{\$\ 55,638,000 + 0\% \times \$\ 44,362,000}{\$100,000,000}$$

(b) If grant:

Grant (100% grant element)	$ 30,000,000
OECD Consensus loan (0% grant element)	70,000,000
	$100,000,000

The overall grant element of this mixed credit is also 30%.

$$\frac{100\% \times \$\ 30,000,000 + 0\% \times \$\ 70,000,000}{\$100,000,000}$$

GRANT ELEMENT OF 30.0 YEAR LOAN WITH SEMIANNUAL REPAYMENTS

INTEREST	INTERVAL TO FIRST REPAYMENT 0.5	1.5	2.5	3.5	4.5	5.5	6.5	7.5	8.5	9.5	10.5	11.5	12.5	13.5	14.5	15.5
.00	67.81	69.91	71.86	73.67	75.35	76.91	78.35	79.70	80.95	82.11	83.19	84.19	85.13	86.00	86.81	87.56
.25	68.07	70.12	72.02	73.78	75.42	76.94	78.35	79.66	78.87	80.00	81.04	82.00	82.90	83.73	84.50	85.22
.50	68.34	70.33	72.18	73.89	75.49	76.97	78.36	79.61	78.80	77.90	78.93	79.88	80.77	81.59	82.36	83.08
.75	68.60	70.54	72.34	74.01	75.56	77.00	78.33	79.57	78.73	79.80	78.80	77.72	78.59	79.39	80.14	80.86
1.00	68.86	70.75	72.50	74.12	75.63	77.03	78.33	79.53	78.65	79.70	78.68	77.57	78.41	79.19	79.92	80.59
1.25	69.13	70.96	72.66	74.24	75.70	77.06	78.32	79.49	78.58	79.59	78.56	77.43	78.23	78.99	79.69	80.33
1.50	69.39	71.17	72.82	74.35	75.77	77.09	78.31	79.45	78.51	79.49	78.45	77.29	78.05	78.78	79.47	80.11
1.75	69.65	71.38	72.98	74.46	75.84	77.12	78.31	79.41	78.43	79.39	78.33	77.16	77.88	78.58	79.24	79.87
2.00	69.92	71.59	73.14	74.58	75.91	77.15	78.30	79.37	78.36	79.29	78.22	77.04	77.72	78.38	79.02	79.63
2.25	70.18	71.80	73.30	74.69	75.98	77.18	78.29	79.33	78.29	79.20	78.11	76.93	77.57	78.19	78.80	79.40
2.50	70.44	72.01	73.46	74.81	76.05	77.21	78.28	79.29	78.22	79.10	78.00	76.82	77.42	78.00	78.59	79.16
2.75	70.71	72.22	73.62	74.92	76.13	77.24	78.28	79.25	78.14	79.01	77.89	76.71	77.27	77.82	78.37	78.93
3.00	70.97	72.43	73.78	75.04	76.20	77.27	78.27	79.21	78.07	78.91	77.78	76.60	77.12	77.64	78.16	78.69
3.25	71.23	72.64	73.94	75.15	76.27	77.30	78.26	79.17	77.99	78.82	77.67	76.49	76.97	77.46	77.95	78.46
3.50	71.50	72.85	74.10	75.27	76.34	77.33	78.25	79.13	77.92	78.72	77.56	76.38	76.82	77.28	77.74	78.22
3.75	71.76	73.06	74.26	75.38	76.42	77.36	78.24	79.09	77.84	78.63	77.45	76.27	76.67	77.10	77.53	77.98
4.00	72.02	73.27	74.42	75.50	76.49	77.39	78.23	79.05	77.77	78.53	77.34	76.16	76.52	76.92	77.33	77.74
4.25	72.29	73.48	74.58	75.61	76.57	77.42	78.22	79.01	77.69	78.44	77.23	76.05	76.37	76.74	77.12	77.50
4.50	72.55	73.69	74.74	75.73	76.64	77.45	78.21	78.97	77.62	78.34	77.12	75.94	76.22	76.56	76.92	77.27
4.75	72.81	73.90	74.90	75.84	76.72	77.48	78.20	78.93	77.54	78.25	77.01	75.83	76.08	76.38	76.72	77.04
5.00	73.07	74.11	75.06	75.96	76.79	77.51	78.19	78.89	77.47	78.15	76.90	75.72	75.93	76.20	76.51	76.81
5.25	73.34	74.32	75.22	76.07	76.87	77.54	78.18	78.85	77.39	78.06	76.79	75.61	75.79	76.03	76.32	76.59
5.50	73.60	74.53	75.38	76.19	76.94	77.57	78.17	78.81	77.32	77.96	76.68	75.50	75.65	75.86	76.12	76.36
5.75	73.86	74.74	75.54	76.30	77.02	77.60	78.16	78.77	77.24	77.87	76.57	75.39	75.51	75.69	75.92	76.13
6.00	74.13	74.95	75.70	76.42	77.09	77.63	78.15	78.73	77.17	77.77	76.46	75.28	75.37	75.52	75.72	75.91
6.25	74.39	75.16	75.86	76.53	77.17	77.66	78.14	78.69	77.09	77.68	76.35	75.17	75.23	75.36	75.52	75.68
6.50	74.65	75.37	76.02	76.65	77.24	77.69	78.13	78.65	77.02	77.58	76.24	75.06	75.09	75.19	75.32	75.46
6.75	74.92	75.58	76.18	76.76	77.32	77.72	78.12	78.61	76.94	77.49	76.13	74.95	74.95	75.03	75.12	75.23
7.00	75.18	75.79	76.34	76.88	77.39	77.75	78.11	78.57	76.87	77.39	76.02	74.84	74.81	74.86	74.92	75.01
7.25	75.45	76.00	76.50	76.99	77.47	77.78	78.10	78.53	76.79	77.30	75.91	74.73	74.67	74.70	74.72	74.78
7.50	75.71	76.21	76.66	77.11	77.54	77.81	78.09	78.49	76.72	77.20	75.80	74.62	74.53	74.53	74.52	74.56
7.75	75.97	76.42	76.82	77.22	77.61	77.84	78.08	78.45	76.64	77.11	75.69	74.51	74.39	74.37	74.32	74.34
8.00	76.24	76.63	76.98	77.34	77.69	77.87	78.07	78.41	76.57	77.01	75.58	74.40	74.25	74.20	74.12	74.12
8.25	76.50	76.84	77.14	77.45	77.76	77.90	78.06	78.37	76.49	76.92	75.47	74.29	74.11	74.03	73.92	73.90
8.50	76.76	77.05	77.30	77.57	77.83	77.93	78.05	78.33	76.42	76.82	75.36	74.18	73.97	73.86	73.72	73.68
8.75	77.03	77.26	77.46	77.68	77.90	77.96	78.04	78.29	76.34	76.73	75.25	74.07	73.83	73.69	73.52	73.46
9.00	77.29	77.47	77.62	77.80	77.97	77.99	78.03	78.25	76.27	76.63	75.14	73.96	73.69	73.52	73.32	73.24
9.25	77.55	77.68	77.78	77.91	78.04	78.02	78.02	78.21	76.19	76.54	75.03	73.85	73.55	73.35	73.12	73.02
9.50	77.82	77.89	77.94	78.03	78.11	78.05	78.01	78.17	76.12	76.44	74.92	73.74	73.41	73.18	72.92	72.80
9.75	78.08	78.10	78.10	78.14	78.18	78.08	78.00	78.13	76.04	76.35	74.81	73.63	73.27	73.01	72.72	72.58
10.00	78.34	78.31	78.26	78.26	78.25	78.11	78.00	78.09	75.97	76.25	74.70	73.52	73.13	72.84	72.52	72.36
10.25	78.61	78.52	78.42	78.37	78.32	78.14	77.99	78.05	75.89	76.16	74.59	73.41	72.99	72.67	72.32	72.14
10.50	78.87	78.73	78.58	78.49	78.39	78.17	77.98	78.01	75.82	76.06	74.48	73.30	72.85	72.50	72.12	71.92
10.75	79.13	78.94	78.74	78.60	78.46	78.20	77.97	77.97	75.74	75.97	74.37	73.19	72.71	72.33	71.92	71.70
11.00	79.40	79.15	78.90	78.72	78.53	78.23	77.96	77.93	75.67	75.87	74.26	73.08	72.57	72.16	71.72	71.48
11.25	79.66	79.36	79.06	78.83	78.60	78.26	77.95	77.89	75.59	75.78	74.15	72.97	72.43	71.99	71.52	71.26
11.50	79.92	79.57	79.22	78.95	78.67	78.29	77.94	77.85	75.52	75.68	74.04	72.86	72.29	71.82	71.32	71.04
11.75	80.19	79.78	79.38	79.06	78.74	78.32	77.93	77.81	75.44	75.59	73.93	72.75	72.15	71.65	71.12	70.82
12.00	80.45	79.99	79.54	79.18	78.81	78.35	77.92	77.77	75.37	75.49	73.82	72.64	72.01	71.48	70.92	70.60
12.25	80.71	80.20	79.70	79.29	78.88	78.38	77.91	77.73	75.29	75.40	73.71	72.53	71.87	71.31	70.72	70.38
12.50	80.98	80.41	79.86	79.41	78.95	78.41	77.90	77.69	75.22	75.30	73.60	72.42	71.73	71.14	70.52	70.16
12.75	81.24	80.62	80.02	79.53	79.02	78.44	77.89	77.65	75.14	75.21	73.49	72.31	71.59	70.97	70.32	69.94
13.00	81.50	80.83	80.18	79.65	79.09	78.47	77.88	77.61	75.07	75.11	73.38	72.20	71.45	70.80	70.12	69.72
13.25	81.77	81.04	80.34	79.77	79.16	78.50	77.87	77.57	74.99	75.02	73.27	72.09	71.31	70.63	69.92	69.50
13.50	82.03	81.25	80.50	79.89	79.23	78.53	77.86	77.53	74.92	74.92	73.16	71.98	71.17	70.46	69.72	69.28
13.75	82.29	81.46	80.66	80.01	79.30	78.56	77.85	77.49	74.84	74.83	73.05	71.87	71.03	70.29	69.52	69.06
14.00	82.56	81.67	80.82	80.13	79.37	78.59	77.84	77.45	74.77	74.73	72.94	71.76	70.89	70.12	69.32	68.84
14.25	82.82	81.88	80.98	80.25	79.44	78.62	77.83	77.41	74.69	74.64	72.83	71.65	70.75	69.95	69.12	68.62
14.50	83.08	82.09	81.14	80.37	79.51	78.65	77.82	77.37	74.62	74.54	72.72	71.54	70.61	69.78	68.92	68.40
14.75	83.35	82.30	81.30	80.49	79.58	78.68	77.81	77.33	74.54	74.45	72.61	71.43	70.47	69.61	68.72	68.18
15.00	83.61	82.51	81.46	80.61	79.65	78.71	77.80	77.29	74.47	74.35	72.50	71.32	70.33	69.44	68.52	67.96
15.25	83.87	82.72	81.62	80.73	79.72	78.74	77.79	77.25	74.39	74.26	72.39	71.21	70.19	69.27	68.32	67.74
15.50	84.14	82.93	81.78	80.85	79.79	78.77	77.78	77.21	74.32	74.16	72.28	71.10	70.05	69.10	68.12	67.52
15.75	84.40	83.14	81.94	80.97	79.86	78.80	77.77	77.17	74.24	74.07	72.17	70.99	69.91	68.93	67.92	67.30
16.00	84.65	83.35	82.10	81.09	79.93	78.83	77.76	77.13	74.17	73.97	72.06	70.88	69.77	68.76	67.72	67.08

Chairman NEAL. Are there others who have opening comments?

Mr. LEVIN. Mr. Chairman, just briefly.

Chairman NEAL. Yes, Mr. Levin.

Mr. LEVIN. I would like to emphasize another point made by the Chairman. Mr. LaFalce has laid out some matters that could be important to the debate on the floor. There would appear to have been some zig-zagging here without acknowledgement of it. And that not only confuses your allies, but I think gives ammunition to your enemies.

So I think we can expect all of this back and forth to be part of any debate on the floor. And I think it's important for you to address it, Mr. Draper. But I wanted to accentuate quickly one other point.

I may miss part of the hearing because I have to go to some internal discussions on the deficit issue. I just wanted to say one word on it.

There's a lot of sentiment to move up the further deficit reduction efforts in 1986 from the present fiscal year, and I hope you will address this, Mr. Draper, it's only partially discussed in your statement. There are really no figures there.

It's possible that in this fiscal year, we will need to find anywhere between $10 and $30 billion. And what this would propose to do is against the backdrop of the Government trying to reduce the deficit by $10 to $30 billion, our going on the floor to ask for a $300 million appropriation which wasn't in the original request and isn't in the budget.

And if you know, I'm favorably disposed to a much more active role by Exim and other instrumentalities of Government, but I think you need to give us, as we have discussed informally, the data that show that you really could not manage to get by 1986 without an appropriation, that you could not do the things that you want to do on a loan rather than on a grant basis, that it would so affect the reserves of Exim that there has to be an appropriation.

If you can't lay the foundation for that within this subcommittee, no matter how friendly some or all of us might be toward a more aggressive role on trade issues, it's going to fall under the weight of this overriding budget deficit.

I think that's just the reality. The data aren't here, what the reserves are, because essentially, you can do by loan under concessionary terms what you can do by grant.

Thank you, Mr. Chairman.

Chairman NEAL. Thank you. Others? Yes, sir, Mr. Grotberg.

Mr. GROTBERG. Only to say that I'm not all that hung up on any part of the process, Mr. Draper. You responded well to the question asked by the gentleman from Carolina. But the facts are it gets down to a budgetary issue. I think that's what has everybody concerned, provided your explanation is right. You need the definition of the difference between "grant" and "loan," hard and soft loan. I am satisfied with the way you answered the question.

But $300 million is like $3 billion in today's market place in this organization.

Thank you.

Chairman NEAL. Thank you. Yes, sir, Mr. McMillan.

Mr. MCMILLAN. I didn't think I had a question, but since that question of the $300 million has been raised, I think it might be well, and it would be some speculation, but to speculate a little bit on the economic impact of having that available in terms of what it would do to U.S. industries' exporting capabilities and the potential revenue that arises when they compete successfully.

Chairman NEAL. All right. Well, I thank the subcommittee members.

Mr. Draper, we would like to hear from you at this time.

STATEMENT OF HON. WILLIAM H. DRAPER III, CHAIRMAN, EXPORT-IMPORT BANK OF THE UNITED STATES

Mr. DRAPER. Thank you, Mr. Chairman, and members of the subcommittee for the invitation to appear once again before this subcommittee to answer some of the questions that have been raised by the proposed legislation establishing a $300 million war chest of grants to combat mixed credits.

This new program will operate very much like our present direct lending program. Applications for financial support will be received and processed by Eximbank. If we believe that an application is a suitable candidate for a mixed credit under the new program, we will refer it to the Treasury to decide whether a grant should be provided.

We have been asked whether the program or the funding we are requested is really necessary, especially since Eximbank has initiated its own aggressive mixed credit program recently. The reason we have done so is straightforward. During the interim period before Congress acts on the proposed legislation, it is vital that our trading partners be aware of the firm stance taken by the United States against the practice of mixed credits. That's why we are using our own resources at the present time to provide mixed credits, but we hope Congress passes the proposed legislation as rapidly as possible. Enactment of the proposed war chest will demonstrate that the entire U.S. Government, both the Congress and the administration, sees eye to eye on mixed credits.

Special funding should also be provided for the program. Any program to combat mixed credits on an aggressive basis is expensive, and the right way to pay for it is through an appropriation. We are not talking about increasing Eximbank's overall direct lending authority. That simply sets a limit on the total principal amount of the direct loans we can authorize in a fiscal year.

What is needed is an appropriation to the Treasury Department to make grants which will substitute for soft Eximbank loans. Otherwise, the difference between the rates on the soft loan and the rates on our borrowings will have to be absorbed from Eximbank's dwindling reserves.

We've been asked whether Eximbank has the authority to make grants. The answer is no. Eximbank has authority only to make loans. The proposed legislation would give authority to the Treasury Department to make such grants.

I think confusion in this area arises from the use of the two terms—"grant" and "grant element" as defined by OECD. A grant is an outright gift of money, whereas a loan, no matter how soft or

concessionary, must always be repaid. The degree of concessionality, whether a loan or a grant is involved, is called the grant element. In the case of a grant, it's 100 percent. For a regular Eximbank loan, the grant element is zero percent by the OECD definition. Soft or concessionary loans fall in between with the exact percentage of the grant element dependent upon the interest rate and the term.

A mixed credit, which always contains a grant element, can consist of a regular Eximbank loan and a grant. A mixed credit can also consist of a regular Eximbank loan and a soft Eximbank loan.

Now let me explain what we have done with the preliminary commitments for mixed credits that we approved recently. Each of them has been reviewed by the Treasury Department and by the NAC, the National Advisory Council. In each preliminary commitment, we are telling the borrower that if it is converted to a final commitment, the financing will consist of either a combination of regular and soft loans, which we have the authority to extend now, or a combination of regular loans and grants, which will be done if Congress approves the proposed fund and appropriates money.

If Congress approves the legislation before a preliminary commitment is converted into a final commitment, meaning our offer is accepted, a borrower will receive a regular loan from Eximbank and a grant. If Congress does not act in time, then we will go ahead with a combination of regular and soft Eximbank loans.

Mr. Chairman, as you have said recently,

> Without appropriated funds, the Eximbank would suffer serious losses on tied aid credit, since the subsidy therein is, by definition, very large. If Congress wanted Eximbank to make loans with subsidies as large as those embedded in tied aid credit, Congress should appropriate the money. It should not duck the issue by pretending these loans would not be very costly, or by pretending that Eximbank could develop an aggressive mixed credits program by drawing solely on its existing capital base.

I fully endorse your comments and urge prompt passage of the proposed legislation.

I'd be happy to answer any questions any of you have.

Chairman NEAL. Thank you, Mr. Draper, very much.

In your press release of the 23d, you mentioned that you were prepared to initiate a mixed credit.

What did you mean by that? Is that a grant?

Mr. DRAPER. We were prepared to issue a mixed credit which would not include——

Chairman NEAL. A grant?

Mr. DRAPER [continuing]. A grant. A mixed credit, as we define it, would be an export financing package consisting of an OECD consensus rate loan, which would mean that it wouldn't be below the consensus rate internationally agreed upon, combined with a soft loan, but not a grant in our case because we have not been given authority to make grants.

So it might be a 2-percent loan for 30 years, combined with an 11.2-percent loan for a normal length of time that is appropriate to the export.

Chairman NEAL. Is that allowable under the OECD arrangement?

Mr. DRAPER. It is allowable if the grant element is above 25 percent, as finally determined. To make it easy, if you had a normal

loan and then a 25-percent gift, that would be legal. If it was only a 20-percent gift, it would not be legal.

Chairman NEAL. Well, I'm curious about the proposals. I think you said that there were six of them that you're doing now.

Mr. DRAPER. Five, I think.

Chairman NEAL. Five. But would they be allowable under that agreement?

Mr. DRAPER. These all have a grant element in excess of 25 percent. So they would be legal.

Chairman NEAL. Well, where are you going to get the money for the grant element? I thought you said that you couldn't do grants.

Mr. DRAPER. We can't do grants, but we can, provide concessional financing by a mix of soft loans and normal loans. There would be a grant element in it, but that's by definition of the OECD as to what is a grant element. But we can't just give away principal.

So what we're giving away is interest. That's the difference.

Chairman NEAL. Well, would this be an effective way to combat the mixed credit practices of other countries? Could we do it this way just as well as appropriating some more money?

Mr. DRAPER. We have a very good program to step up the heat and that's exactly what we've done. We would not want to do this on a continual basis without Congress telling us to do it because we're eroding our reserves very rapidly. And, of course, what we've done recently in stepping up the heat is not just to meet, but also to initiate mixed credits where we think that it will hurt our partners who are negotiating on the other side. We're trying to enter into their territory where they might not even plan on mixed credits, but because it's a former colony, or what have you, it might be a very protected area and we're trying to go in and attack them.

But I think the answer to your question is we can, through a normal loan and a concessionary loan, make a program, but we want it to be a consistent program on an ongoing basis until we get this agreement in place.

We expect, as the Treasury has predicted, that it would all occur within the next 2 years, that we'd have agreement from the French and the EC and the rest of the OECD that we have solved this problem. But until we do, we feel that we have to get aggressive, and we told you so in the testimony when I appeared last before this committee. I pointed out, in contrast, I think, to what Mr. LaFalce said, I did point out that we were going to embark on this program.

Just to quote, I said,

> With my directive from the President and the prospect of a special fund devoted to tied aid offers, Eximbank will become even more aggressive in its approach. Until additional funds are provided, Eximbank will step up its present program.

And I pointed out earlier what the present program had been, which involved a total value of $400 million in a dozen cases in which we had offered concessionary terms on. And on a case-by-case basis, we proposed to more aggressively seek out and neutralize tied aid credits offered by countries that are refusing to negotiate. Where we feel we can inflict maximum damage, we will offer better financing than these countries. We are also prepared to ini-

tiate tied aid credits in certain markets our competitors think they have locked up, and so on.

Chairman NEAL. Bill, as you know, the subcommittee has been favorably disposed to this sort of activity for a long time. The full committee passed legislation a couple of years ago that would try to put pressure on those countries that engage in this practice. You characterized it as insidious, I think, in your news release. I agree with you. We've tried for a long time on the subcommittee to do something about it.

As you know, the administration was against it before; now they're for it.

The reason I'm asking these questions is not because I've changed, nor do I sense that the other members of the committee have changed their opinion on it. But if the subcommittee and full committee, became convinced that this is a good idea and the money is needed, then we are going to have to sell it to the rest of the Congress.

I think that some of the questions that we are raising this morning are those that will be raised at that time.

Mr. DRAPER. Right.

Chairman NEAL. I just wanted to try to offer that perspective on why we are asking the questions.

Mr. DRAPER. Sure.

Chairman NEAL. And I have to say, I'm still not clear what your answer is. You have said this morning that you cannot offer a loan with a grant element.

Mr. DRAPER. No. We can't offer a loan——

Chairman NEAL. With a grant.

Mr. DRAPER [continuing]. With a grant.

Chairman NEAL. But with a grant element. And a grant element being a no-interest loan, down to a no-interest loan.

Mr. DRAPER. No. A grant is giving away principal.

Chairman NEAL. A grant element is reducing the interest, as I understand it.

Mr. LEVIN. You can reduce it to zero.

Chairman NEAL. You could reduce it down to zero.

Mr. DRAPER. A grant, by definition, is an outright gift.

Chairman NEAL. Right, OK.

Mr. DRAPER. A grant element, by definition, is a technical term used to measure how concessional a loan is. The grant element, and this is what is used in the OECD, the grant element in a loan is defined as the difference between the original face value of the loan and the discounted, and under their convention, it's a 10 percent, arbitrary 10-percent rate that anything below that is considered discounted, unless they've approved it for low income countries.

The grant element in a loan is defined as the difference between the original face value of the loan and the discounted present value of debt service as a percentage of the original face value.

By definition, the grant element of a grant is 100 percent and the grant element of the OECD consensus loan is zero. The minimum allowable grant element of a mixed credit or a tied aid credit under OECD arrangement is 25 percent.

Chairman NEAL. And you can get over 25 percent by making concessions on interest rates.

Mr. DRAPER. Yes, that's correct.

Chairman NEAL. So you're not going to have any problems with OECD——

Mr. DRAPER. We can have over 25 percent grant element without making a grant. That's correct.

Chairman NEAL. Are there other——

Mr. DRAPER. But let me answer your question a little more broadly, Mr. Chairman.

I think that what we're really trying to do is get the entire administration and Congress, Democrats and Republicans, solidly behind this negotiation because it's been an annoyance. It's been a complicated effort. And frankly, you said we changed our opinion. It's true—as time went on, we kept negotiating and with some progress, until even last spring, we were making steady—not steady, but intermittent progress.

And last spring, we learned from the French that that was as far as they were going to go and they didn't want to discuss it any more. And so we need some bullets now in our weapons to try and bring them back to the bargaining table.

So we want you and our administration and our Eximbank, to all get together and really bring down the hammer on these people.

Chairman NEAL. Mr. Levin.

Mr. LEVIN. I appreciate it and I will be brief so that you can go next.

There's a little irony in talking about getting together when the Congress has been ahead of you.

But be that as it may, the trouble with that as a rationale that is in your testimony is we can pass a joint resolution or we can pass a bill that makes it clear that you can continue to do what you have been doing with the five programs. The heart of it, I think, is money, especially this fiscal year.

And I think as we discussed informally, you need to tell us in detail what's going to happen if you continue this program through your reserves. Why can't you continue your concessional, your combination of concessional assistance, down to zero without a new appropriation? And you're just going to have to show us the balance and loss sheets.

Mr. DRAPER. OK. Let me just report to you, although I don't want to go into detail about each of the specific cases, because we'll be reporting on those at the appropriate time, but I'd like to give you some total amounts on the five mixed credits we authorized on October 17. And they weren't the first that we had done. As I pointed out, we had done a dozen cases before that, but these were more aggressive, more targeted toward the people we feel are giving us the most headaches in the negotiation.

These loans, just targeted to this one element, amounted to a total of $104 million of soft loans and $151 million of standard loans. Our loss on the total, the net loss on the whole package for Eximbank is $164 million. If all of those offers are accepted, we lose $164 million.

The present value of that net loss, because that loss will be spread over many years as we disburse against the loan commitment, would be $62.4 million.

Now that's figuring it at our cost of money, the Eximbank cost of money, which is at 10.3 percent.

Mr. LEVIN. What are the reserves?

Mr. DRAPER. Let me give you what they're projected at as of the end of this calendar year. As of December 31, 1985, the reserves will be about $1 billion. The capital is $1 billion, and the reserves will be $943 million.

We have been told to report back to you when those reserves and capital get to be half of what they were in September of 1983. We are projecting that that will occur in the third quarter of fiscal year 1987.

Mr. LEVIN. So what would the level be—the third quarter of 1987, the reserves would be what?

Mr. DRAPER. $1,396,000,000. So we are losing money now, you understand. We are losing $300 or $400 million—about $400 million a year now. So when you take——

Mr. LEVIN. So the figure $943 million at the end of this year, the end of the third quarter of 1987, they'd be, what?

Mr. DRAPER. They would be $1 billion of capital and $396 million of reserves for a total of $1,396,000,000, as compared to $1,943,000,000 which we project them to be at the end of this calendar year.

Now, if you instruct us to do this and tell us that you want us to spend $300 billion, if needed directly, well, sure, we'll do whatever you tell us to do.

Mr. LEACH. You mean million.

Mr. DRAPER. What?

Mr. LEVIN. Million. You're not the Defense Department. [Laughter.]

Mr. DRAPER. Million. Million. Million. [Laughter.]

Well, if you want to say $300 billion—but $300 million is what I meant to say, yes.

Mr. LEVIN. But you don't need us to tell you that, legislatively.

Mr. DRAPER. We think we do because we think we've got to get your commitment along with the administration commitment to fight these unfair trade practices.

Mr. LEVIN. You have had that urging from us. We have been on the soapbox, the bandwagon. I don't understand that, Bill.

Mr. DRAPER. Well, we are just stepping up the heat. We want your concurrence on this. You know, it's sort of fudging to say that you're not spending the money, because if we commit it, you're spending it. It's going right out of the taxpayers' pockets, whether it's from Eximbank or an appropriation from you to the Treasury.

Chairman NEAL. If Congress doesn't appropriate the money, what will you do? Can you go ahead with it?

Mr. DRAPER. We will take that as a sign that you are not in support of this program for us, and therefore, we won't continue to do it this way. We'll go back to making normal loans at the OECD consensus and once in a while, maybe——

Chairman NEAL. Let me put it another way. What if Congress couldn't or wouldn't pass it, but said, it's the sense of the Congress

that you ought to do it, anyway. We are behind you. We want you to do it. We also want you to use your own reserves to do it with.

Mr. DRAPER. Well, we would have to take you at your word, then, and do whatever you instruct us to do.

Chairman NEAL. As I understand it, the end result is the same. The taxpayers are going to pay the bill one way or the other. I personally think it's better to be essentially up-front about it and say, this is going to cost money and this is how much money it's going to cost and this is the way we ought to do it.

Mr. DRAPER. I think you and I are in agreement on this.

Chairman NEAL. But, there, again, these are tough times. We're just talking about a measure that would require cuts across the board in many areas.

Mr. DRAPER. Sure.

Chairman NEAL. And it may be the mood of the Congress that it won't grant the money.

Mr. Leach.

Mr. LEACH. I was last here, so those that want to go first——

Chairman NEAL. Mr. McMillan.

Mr. MCMILLAN. I'm trying to get this thing a little bit better in perspective because you're looking for instruction from the Congress and the Congress has not instructed you to take losses on your loan portfolios, that's part of the problem.

What has Congress appropriated totally to Eximbank?

Mr. DRAPER. Back in 1945 Eximbank got $1 billion from the Treasury for stock and we have paid to the Treasury over $1 billion in dividends on that stock over the years out of our profits. So assuming that we got everything back that's on our balance sheets, we'd still not be in the hole. There has never been an appropriation from Congress.

Mr. MCMILLAN. So that's your billion-dollar capital base and you built reserves of $943 billion sense—excuse me—millions. I'm getting into the same trap. [Laughter.]

Mr. DRAPER. That's right.

Mr. MCMILLAN. OK. So when you make loans like you did the five mixed credits on October 17, that, as you stated it, aggregated $254 million——

Mr. DRAPER. Right.

Mr. MCMILLAN [continuing]. Of which $104 million would be what you referred to as not a grant, but having a grant——

Mr. DRAPER. Soft loan, yes.

Mr. MCMILLAN [continuing]. That would be the grant element.

Mr. DRAPER. No.

Mr. MCMILLAN. It would not?

Mr. DRAPER. No; that would be the amount of the loan.

Mr. MCMILLAN. The face amount.

Mr. DRAPER. It would be on a soft basis.

Mr. MCMILLAN. Would the grant element there then be the $62 billion in present value of the losses you anticipate by doing that?

Mr. DRAPER. Yes. The grant element is always 25 or 35 percent, depending on what number you need to pick, but they average something over 25 percent.

So when you figure what the grant element is according to the OECD, it's a little more complicated in that they fix this 10 percent

hat I quoted as the definition, and that comes to $69 million, as pposed to the $62 million that's the present value on our cost of noney for net loss.

Mr. MCMILLAN. Can you make an adjustment to your accounting hat would reflect the real present value of that soft loan?

In other words, when you put out $104 million that may be, let's ust say for the sake of the argument, the loan is 2 percent——

Mr. DRAPER. It's a 2-percent loan for 30 years.

Mr. MCMILLAN [continuing]. Repaid for 30 years, what do you do vith it on your books? Do you write it down to fair market value?

Mr. DRAPER. No.

Mr. MCMILLAN. OK. Well, I think that's part of what we're dealing vith. He, in effect, is creating in effect a book loss by any financial standards that does not show up as a budget item.

Mr. DRAPER. That's right.

Mr. MCMILLAN. And yet, in terms of the public's value, interest or equity in whatever Eximbank has, we're taking a loss.

Mr. DRAPER. That's right.

Mr. MCMILLAN. And I think what they're saying, by giving it over to a grant program, let's call it what it is. It is a grant. We're never going to get that money back.

Mr. DRAPER. That's right.

Chairman NEAL. Well, that's my preference. I'm just saying, and you're exactly right. It's a gift. If you're going to do it, do it as a gift and the taxpayer has to pay the bill one way or another.

Now, they've asked forthrightly for $300 million to give away.

Mr. DRAPER. But we haven't given any principal away. We've given interest away. That's the difference. That's why I say that we are not authorized to give grants, but we have given grant elements.

Mr. MCMILLAN. Right.

Mr. DRAPER. And they're getting more and more expensive to us.

Mr. MCMILLAN. Well, that may be part of the problem, that Congress has not said, we want Eximbank operated so that it makes soft loans out there that, in effect, depletes the reserves up to a certain limit. And if we would say that, yes, we want you to do that at a rate of $300 million for the next 12 months, then that would be an expression of intent that's consistent with creating a $300 million grant program.

Mr. DRAPER. Congress has said that they want us to be competitive. But, you see, we're going beyond that in this negotiation tactic in that what we want to do is initiate and go below the offers that they might make just to get them back to the bargaining table. This whole $300 million, or whatever portion of it is needed to get an agreement that's satisfactory, is directed toward one thing—and that is to get the negotiations in place so that we can have an agreement that makes sense.

We feel that the current OECD agreement does not make sense in the mixed credit area. Twenty-five percent is just too low. We want it to be 50 percent. Then we'll go away. Then we'll say, fine, if you're going to give away half the money, then that's a real gift. You can buy that order, whatever it is.

Chairman NEAL. All I was trying to say is that there is another way to do it if we can't get the appropriation, if conditions are such

that we can't get the appropriation, we just say, well, you all do it and eat into your reserves. But we've got to recognize that's what you'll be doing and it will certainly weaken the position——

Mr. MCMILLAN. But that represents a conscious withdrawal from the previously stated objectives of Eximbank because we're taking reserves out of Eximbank and saying, use it for a different purpose.

Chairman NEAL. Sure.

Mr. MCMILLAN. In a different way.

Chairman NEAL. May I ask——

Mr. KLECZKA. I just wanted to follow up on your comment. If, in fact, there would be a reluctance on the part of Congress to authorize the additional $300 million, but we like the program and would authorize that, how long would you go using your reserves? For what period of time could you sustain the loss of the reserves?

Mr. DRAPER. Well, of course it depends on how many we do. But, presumably, as I say, we would be at $1.4 billion in June 1987, with $400 million of the $1.4 billion being our reserves. And if we used say $400 million of reserves, we'd be down to zero reserves at that point. We'd be back to our capital of $1 billion.

Technically, I guess you could say that we could go for a long time because we could eat into our capital and so on. But we don't think this is the way to do the business.

Our Board of Directors consists of some Democrats and some Republicans. It's not just an arm of the administration. Our Board wants to be competitive, but we want to know what the rest of the Government wants us to do, and what the Congress wants us to do. We think that this would be a good chance for you to say, yes, we want to get behind the effort to beat down these unfair practices, which is where we think we really need it.

Mr. KLECZKA. So Congress is not authorizing the money, but authorizing you using $300 million of your reserves. That you could do without creating any havoc to the agency.

Mr. DRAPER. That's right only if you told us to continue doing it through providing soft loans instead of this Fund.

Mr. KLECZKA. Thank you.

Chairman NEAL. Mr. Grotberg.

Mr. GROTBERG. Thank you, Mr. Chairman. Part of the problem is that you're a banker and you congenitally don't want to give things away. And your whole Board is probably made up of bankers, too, and I understand that.

But pretend nobody here knows anything about what you do. Who gets the money—as I understand Exim, it's for infrastructure overseas in the private sector.

Is it correct to include big contracts for roads and highways and generators, and so forth?

Mr. DRAPER. No, that's not quite correct. We are not really for infrastructure kinds of loans. It's for sales of the turbine generators or airplanes or locomotives, but not the highways, which you mentioned.

Mr. GROTBERG. OK.

Mr. DRAPER. We're for anything that is an export of American products or services, but it must be an American export. The whole basis of the Eximbank is to forward American exports. The loan ac-

tually goes to the foreign purchaser in order to buy the American export.

Mr. GROTBERG. Now my next question, and I'll try to be brief. We have programs similar to mixed credits in other areas of the U.S. Government. The Department of Agriculture and AID give away money. We just passed a $12 billion foreign aid bill. Why in the heck can't we transfer $300 million out of those programs into yours. Everybody's in the giveaway business and nobody knows where it all goes. As a Congressman and a relatively new one, that concerns me.

God doesn't know where the money goes, let alone this body. [Laughter.]

Seriously. It sounds funny, but it's quite true. So why would we give you a grant program when we've got so many people giving away money now full-time. And they're experts, and not hung up like the bankers are. [Laughter.]

Mr. DRAPER. Maybe I could just give you one point that hasn't fully come out. This $300 million is the cheapest way that we can get away, we think, if we spend it, or some part of it, on bringing the negotiations up to where we don't need to match these mixed credits. It will save the American taxpayer more than it costs him, much more than the $300 million.

Mr. GROTBERG. But can you pick up the phone and call AID or Agriculture or somebody and say, I need $300 million this morning?

Mr. DRAPER. No.

Mr. GROTBERG. No, you can't do that. Maybe legislation like that would help.

My next question, then, is yesterday was the biggest day in the world. We're going to buy 4.5 billion dollars' worth of radios through a French-GTE combination. Are you involved with that in anyway?

Mr. DRAPER. I don't know about that one. Four and one-half billion dollars' worth of radios?

Chairman NEAL. The Bank only supports exports, not imports.

Mr. GROTBERG. But we're exporting——

Chairman NEAL. I think we'll be importing those, though.

Mr. GROTBERG. But somewhere there's a mixed credit arrangement behind that thing or France wouldn't be in on it because they can't afford to gear up for something like this without tapping us, and they're already fighting for the other items on the table.

Mr. DRAPER. I'm not familiar with that case.

Mr. GROTBERG. But I'm saying, for understanding purposes. Now there's a dirty rumor out in the Treasury Department that in the long run it's cheaper to give it away than it is to make a loan. I presume that would be based on today's value, and presumably to put it into operation now would be cheaper. This year's interest rate may be lower than next year's, but Treasury is suggesting that maybe the best option, gentlemen, is "granting", and the taxpayers will save in the long run by giving it away now as opposed to going through the paper shuffling that takes over 30 years when we make a loan.

Mr. DRAPER. I have to say that we're not confident that that is the case, that the giving of $300 million is better, say, than a soft loan that collects interest over a period of time.

Mr. GROTBERG. But there's some debate going on on that.

Mr. DRAPER. Yes, I agree. I think different accounting methods approach it in different ways.

Mr. GROTBERG. I have exhausted my time, Mr. Chairman.

Chairman NEAL. Mr. Kleczka, did you have——

Mr. KLECZKA. No, thank you, Mr. Chairman.

Chairman NEAL. Mr. Parris.

Mr. PARRIS. Thank you, Mr. Chairman.

Mr. Draper, I'm just a poor Virginia country lawyer——

Mr. DRAPER. Uh oh. [Laughter.] I'm in trouble.

Mr. PARRIS [continuing]. And I'm trying very hard to understand this discussion and where we are.

Sometimes it seems very much to me like we're engaged in an international poker game. We're saying, we'll see you and raise you $300 million. That's about where we are. At least that's where I thought we were, until we came in this morning and started to play semantic trivia by sophisticated persons in international financial circles.

Let me tell you why I'm not sure I'm not confused.

The definitions of mixed credit terms furnished by the Bank are helpful. It says, among other things, and you alluded to some of this earlier, that a grant is an outright gift. Well, I'd like to focus on that.

Then it says, by definition, the grant element of a grant is 100 percent. That seems fairly straightforward. And the grant element of an OECD consensus loan is zero.

That's also fairly straightforward.

The minimum allowable grant element of a mixed credit or a tied aid credit under OECD arrangement is 25 percent.

That means to me that you have got to give away $25 for every $100 you loan.

Mr. DRAPER. For every $75 you loan.

Mr. PARRIS. For every $75, excuse me, to make $100 transaction. You deal in terms of millions and billions of dollars.

Mr. DRAPER. Right.

Mr. PARRIS. Us poor Virginia country lawyers deal in hundreds all the time. [Laughter.]

But I'm with you so far. Now, we go to the tables that have been furnished to us on the grant element of the 30-year loan with semiannual repayment, and the interval of the first payment, 10 years, and the interest rate, if I read this correctly, at 6.5 percent after 4½ years, you get to 25.1 something of a grant element.

Is that correct?

Mr. DRAPER. Well, I don't follow.

Mr. PARRIS. You can get there faster if you use the lower interest rate.

Mr. DRAPER. Sorry. You are looking at the OECD tables on the last page.

Mr. PARRIS. And the element of a 30-year loan with semiannual payments.

Mr. DRAPER. Yes.

Mr. PARRIS. So if you go to 6½ percent interest rate at 4½ year intervals, you get 25.1, which is your minimum grant element.

Is that not correct?

Mr. DRAPER. Yes, that looks just about right.

Mr. PARRIS. OK. Now, obviously, as you decrease your interest rate, the more generous you get in terms of your interest concessions, the quicker you get to a higher grant element.

Correct?

Mr. DRAPER. Yes, that's correct.

Mr. PARRIS. OK. So I guess really my question, Mr. Draper, is very similar to that asked by some of my other colleagues.

A rose is a rose is a rose. And I understand your lamentable desires to have some policy direction from this Congress, and I share that point of view. I think we are charged with the responsibility of at least giving you some consensus of what we think the proper approach to these difficult problems that created the imbalances ought to be.

If we don't do it right, somebody, at least in my case in Virginia, will decide that they want somebody else to do it. I understand that and I appreciate that, and I agree with that.

But what concerns me very much, very honestly, is it doesn't matter much what we say because it seems to me that those of you who play in this international poker game can define these things and make them happen in any event the way you see fit to make them do.

If I understand your statement correctly, you say, if the Congress does not do the $300 million, which to me is nothing more or less than a cash flow question, if we don't give you the $300 million cash to play in this game with, then you can, by structuring—and I don't mean this in a critical way—but by structuring your grant to meet these extremely arbitrary limitations, it seems to me, you can accomplish the same results.

Is that not correct?

Mr. DRAPER. Yes. I think that we can continue to do what we've been doing and doing it more aggressively even than we've just started on. But it seems to us that the last thought we had on the mixed credit from Congress was that we should have a mixed credit program between AID and ourselves where, presumbly, AID would supply the grant money and we'd supply the normal loans. Congress didn't spell out exactly how it should happen, but that we should have some kind of a mixed credit program that would match what the opposition was doing.

Now in this case, we're asking to go further. For negotiating purposes, we want to dive down and give more than just the 25-percent grant element to match the grant element of the opposition because in our negotiating program, we have not succeeded in bringing the French, basically—but it was also Italian and some Belgian support—up to a level that we think is satisfactory, and they've walked away from the table.

So we feel that we would like to initiate some of these mixed credits rather than just matching what is already going on, without just matching what is already occurring in the way of mixed credits.

So that's one answer to the question. And the other is, you're right, we're concerned about our reserves and concerned about our balance sheet. And yet, we are concerned about being competitive.

So we thought it was time to come up to you because we know that you're facing a tremendous budget question.

Mr. PARRIS. I think you're being totally consistent with what I at least understood 1½ or 2 years ago in our previous hearings over this matter that we were instructing you to do. I think you're straight on the target.

My question is, really, I suppose, and I don't mean to be obtuse about it, as you increase your concessional rate on interest, you're accomplishing basically the same thing. But what you're really saying is let us just fight fire with fire.

Is that correct?

Mr. DRAPER. Oh, yes.

Mr. PARRIS. Let us just go in there with our $300 million, as the gentleman from North Carolina has said, and just be straightforward about it and say, OK, now if you want to play this game this way, here's all the $300 million and you match it.

Is that what you're really saying?

Mr. DRAPER. Yes, and by the way, it's not just $300 million. That's only the grant element.

Mr. PARRIS. I understand.

Mr. DRAPER. We would be lending with that some $700 million in regular Exim loans. So you could end up with a billion or $2 billion of offers.

Mr. PARRIS. The chips get bigger and the pot grows.

Mr. DRAPER. Yes, that's correct.

Mr. PARRIS. It's not just the $300 million.

Mr. DRAPER. No. But it is just the $300 million on a grant basis. The other $700 million would be on a normal basis.

Mr. PARRIS. I understand. I don't mean to belabor this, Mr. Draper. Your last comment in your testimony, you urge prompt passage of the proposed legislation. There has been some modest discussion, I think, of the possibility of some substitute proposal or some modest change in the original proposal or something.

Are you locked into the current legislation as it exists or would you consider——

Mr. DRAPER. We are not locked into anything. We are asking on the basis of the proposal that we've given you for the reasons that we've given for the $300 million to be given to Treasury to work with Eximbank. In answer to Mr. LaFalce's earlier questions, we would definitely be the initiator of the mixed credit and would require the cooperation of the Treasury. But with the combination of those two programs, we think we can do with $300 million in the Treasury that would be appropriated by you. If you make some modest changes to that, I'm sure we'll all be appreciative if we can do it quickly.

Mr. PARRIS. Thank you. And thank you, Mr. Chairman.

Chairman NEAL. Certainly. Mr. Leach.

Mr. LEACH. Well, first, I think it is clear that everyone wants to be helpful. I would say, though, that there are further ironies beyond which Mr. Levin mentioned. The Congress has probably been a little more pushy than the administration to date has been. On the other hand, some of us in Congress were really a little concerned with the language of your first press release announcing the program prior to congressional approval because there was some

constitutional seemliness there that struck us. It was a little unfortunate.

Your reference earlier on the subject of constitutional seemliness to you being not being a part of the administration surprised me a little bit, too.

You don't mean that, do you?

Mr. DRAPER. Did I say I wasn't part of the administration?

Mr. LEACH. You are part of the U.S. Government, even though you have Democrats on your board.

Mr. DRAPER. Oh, sure. Yes. [Laughter.]

Mr. LEACH. You are an arm of the U.S. Government.

Mr. DRAPER. Right. But we are an independent agency.

Mr. LEACH. Yes. But you are part of the U.S. Government.

Mr. DRAPER. Certainly.

Mr. LEACH. The reason I raised that, we have a new term of political participation.

Chairman NEAL. It's just the Democrats that aren't a part of the Government.

Mr. LEACH. That's right. [Laughter.]

The new term of political art has something to do with the Presidential imprecisions. [Laughter.]

We expect those from people elected to office, but certainly not from appointees.

I just wanted to raise two issues. One of the difficulties with your current announcement, relates to past Export-Import Bank practices is that you are picking some industries over others in an inequitable way.

And so my only advice in that area, is that when you do provide a special treatment for some businesses, you're going to want to be very careful that you don't just simply help those that might be politically motivated.

Mr. DRAPER. I couldn't agree more.

Mr. LEACH. And that has never been a problem at Exim, but that whole Rita Lavelle syndrome is something very much in the public consciousness. And so when you take on this type of undertaking, I think you're going to have to bend over backward to make sure that you take the economic cases as contrasted with political cases.

Also I hope you pick a number of smaller cases rather than one or two of the larger cases. This would help to obviate the fairness problem, which I think you're going to experience if one exporter gets special treatment and another exporter doesn't.

Mr. DRAPER. Let me explain, though. This is clearly not a program that is geared to anything other than improving our negotiating position. And if a larger case would get attention at the bargaining table, the way we're interpreting it, that's good enough reason to do it.

We're trying not to take, as you point out, any domestic political considerations as a reason to do this. The only reason for it, and it should be our focus, is on the negotiating effectiveness.

Mr. LEACH. Well, I certainly agree that there should be no political implications. But the corn farmers particularly ought to have a high visibility role. [Laughter.]

Chairman NEAL. Lots of corn. [Laughter.]

Mr. LEACH. Anyway, one of the interesting aspects of your proposal is that Treasury is going to be playing apparently a larger role than has historically been the case. Could you indicate the reason for proposing a larger role for Treasury?

Mr. DRAPER. Yes. I think the key reason for having it in Treasury is because they are the lead of the negotiating team, which includes us. It's really Eximbank and the Treasury, but they have been given the lead in the negotiation by the Congress. When they feel that the agreement is satisfactory, they can terminate the further use of this fund, which is the whole objective. I think that's the main reason it's in Treasury.

Now as far as how it will work practically, nothing, I don't think, will be different as far as applications. They'll go to the Eximbank. Exporters will come to us when they see an opportunity for a mixed credit. We will then talk to the Treasury about it and if we both agree, then it will go forward. If they don't agree, then it will not go forward.

Now the NAC, of which they're the chairman, has had certain responsibilities with regard to these mixed credits, even by your 1983 Congressional law that requires 100 percent NAC approval on each case.

In other words, the Treasury has a veto power. And they have a veto power, of course, over the use of this $300 million. It is true, I suppose, that they could offer a grant without Eximbank approval, but that's very unlikely because we would be always trying to improve the exporter's lot as much as possible.

Mr. LEACH. Well, let me just come back to the seemliness issue, though, on the transfer of authority, who has the power.

I don't mind giving Treasury a little bit larger role and there are some possible advantages to Exim because it doesn't look like it's a grant. That is something that this committee ought to be very aware of.

But I'm a little reluctant to think that Treasury will play a role that of the Eximbank. Suddenly, you get someone totally different with powers that there isn't professional expertise to back it up.

A negotiating role is very different than the role of putting together a lot of loans for which you develop a lot of judgment. I would hate to have suddenly someone at Treasury say that they've got this great new-found authority and therefore, make a loan that Exim would not have approved of.

And so, I have no problem with double the dose. I mean, I think you're going to want to be very carefully cautious, and again, I would stress that the emphasis should be on getting these things out of politics as much as possible and give new people new authority. You can have a situation where all of the professionalism hasn't come to bear.

And if I were to make any advice, it would be—I have no problem with Treasury having the veto over you, but I would hope that you would have the veto over Treasury. If they want to play the lead role, that's fine. But I'd hate to see someone that is the lead negotiator in Paris whose professional background is negotiating and suddenly getting a call from a friend from Texas or California or whatever that says, look, I've got this great idea. Why don't you

back my proposal? And the guy says, sure, and you have a conflict of interest to get out.

And so I hope Exim isn't going to be giving up too much authority in that regard.

Mr. DRAPER. Well, I don't think that we'll be giving up any authority. For example, they may make 30 percent of the total package, but we make up the other 70 percent. So in that sense, we have a veto power, unless they just want to give away the money with no loan element at all, which seems to me fairly irrational.

I don't think that there will be a problem, Mr. Leach. I really don't.

Mr. LEACH. I don't think that there is likely to be a problem, but I think it's good to raise it before it could occur. The Rita Lavelle model is a model that we all should bear in mind.

Mr. DRAPER. Right.

Mr. LEACH. If a mistake is made on the choice of a given individual with a given amount of influence, then I think you ought to have the protection of the institutional bases and I think it should be on the record that your Congress is being asked for $300 million and it, at a minimum, expects that.

And so, I would like to place that on the record as sincerely and strongly as I possibly can because you are dealing, by definition, with an unfair program. And when you deal with unfairness, you've got to bend over backward to take the most professional degree of care that is humanly possible.

Mr. DRAPER. I agree, and we certainly will.

Mr. LEACH. Having said that, to my knowledge, Eximbank has had virtually no problem historically on that basis. But your problems do come, as you know, all the time. When one kind of company gets a deal and the other company that is its competitor in America knows about it the next day. They are the first to tell you, they want the same deal.

I can visualize now that a lot of the American export community might start beginning French competitors to put in a bid, if they're going to lose the bid, anyway.

And so there are some problems that typically could develop.

Mr. DRAPER. I agree.

Mr. KLECZKA. Mr. Draper, what is the administration's posture on the Neal bill which we'll be marking up tomorrow?

Mr. DRAPER. I'm not familiar with all the details of it, but I have to say that I'm up here supporting the administration's bill, which is different from the Neal bill.

Mr. KLECZKA. I realize that. Tomorrow, we'll be taking up the Neal bill versus the administration bill.

Mr. DRAPER. Right. Well, I would support the administration bill.

Mr. KLECZKA. OK, do you oppose the Neal bill?

Mr. DRAPER. I think I have to say that I do at this juncture.

Mr. KLECZKA. You do oppose the Neal bill. And I'm assuming the administration is also opposed to the Neal bill.

Mr. DRAPER. I think everybody has to speak for themselves. But I would speak personally that I think we'd like to see it go through the way the administration proposed it.

Chairman NEAL. Does that surprise you?

Mr. KLECZKA. I'm sorry I asked the question. [Laughter.]

No; I just thought that if, in fact, it was that important, there are some differences between the two bills, and as important as you've indicated to me, be it Treasury or Eximbank, you should jump right on it and go for the cash. But maybe politics is the overriding feature.

Mr. LEACH. Will the gentleman yield?

Mr. KLECZKA. Sure. Go ahead.

Mr. LEACH. I'm sure by the time we're through, it will be a committee bill led by our distinguished chairman.

Mr. DRAPER. There you go.

Mr. LEACH. And maybe we can take a few elements into consideration on both sides.

Mr. KLECZKA. Maybe we can change the terminology and make it the Neal-Parris——

Mr. GROTBERG. I need my name on a bill somewhere. [Laughter.]

Mr. KLECZKA. Mr. Chairman, it will be interesting to see how this bill fares in the legislature because through the questioning today, first of all, we find that the additional appropriation of some $300 million is not necessary because of the vast reserves the Eximbank has and those reserves to be tapped for those dollars. So that's one important feature of the bill, which I guess one would have to question whether or not it's necessary to do so. And the second is, and this follows the line of questioning from Congressman Parris, with the authority or under the current existing authority of Eximbank, one could rationalize that we don't really need the grant authority because under your soft loan authority, you just bring the rate down.

So the other major portion of the bill is the grant authority. And those two things are eliminated from the bill, we barely have the title.

So maybe you can respond to me as to why we need the bill?

Chairman NEAL. Let's make this the Grotberg bill. [Laughter.]

Mr. MCMILLAN. Would the gentleman yield a minute? While we're talking about these two bills, it might help settle things on this side if we were to see a copy of what the Neal bill is. I have not seen the Neal bill

Mr. KLECZKA. I'm sure that's forthcoming or in your office. That has been distributed, I understand.

Mr. MCMILLAN. We look forward eagerly to reading it. [Laughter.]

Mr. KLECZKA. It was distributed to our offices last week and those of us who took it home over the weekend, we now know of it as the Neal bill. [Laughter.]

Nevertheless, would you comment on my concern that if the two major elements are really not necessary, what are we doing here?

Mr. DRAPER. Well, as I said in my testimony, the chairman and I agree that because these mixed credits are so large in cost the Congress shouldn't duck the issue by pretending that these loans would not be very costly, or by pretending that Exim could develop an aggressive mixed credit program by drawing solely on its existing capital base.

You're right. We could continue with the program that we have put in place and continue to step up the heat. But we would be

very concerned if you did not pass this appropriation because we'd feel that there was not a full commitment to go after it in this way.

Mr. KLECZKA. I know. But that would direct you to get your reserves and do the same thing.

Mr. DRAPER. Well, I would hope you wouldn't do it that way.

Mr. KLECZKA. To indicate to this committee that you can't move ahead on the program without the new appropriation is not the case at all.

Mr. DRAPER. No, I didn't say that we couldn't. I think we feel that we are given a fiduciary responsibility as well as a competitive responsibility and our competitive responsibility is more important. But we're asking for more than that. We're asking for the right to go in and initiate mixed credits in order to catch the attention.

The French, for example, in some parts of Africa have no mixed credit program at all because they feel they've got an advantage already. If we go in and shake them up a little in their own markets, maybe they will stay out of Brazil, where they put in a mixed credit for a medical equipment case and we had to duck down with some of this taxpayer money and match that in order to get the business back in Brazil. And we did, in Sao Paulo hospital equipment.

So, you know, we just want 100 percent support—Democrats, Republicans, administration, everybody—behind this.

Mr. PARRIS. Mr. Chairman.

Chairman NEAL. Yes, sir.

Mr. PARRIS. Mr. Chairman, on that point, I think it needs to be restated that, as we have done in this subcommittee and in this Congress so many times, there are some elements, as I understand it, of the Neal bill, if you will, that the administration, in some portion therein, takes some mild exception. There are other parts of it that I understand they support.

The gentleman from Iowa I know has done some work in this area and there are, I'm sure, not remote opportunities for the two of you gentlemen to get together with a consensus vehicle that we can all enthusiastically support because I think we all understand what is properly characterized as the insidious nature of this thing and a desire to attack the problem.

I'm not nearly as pessimistic about the political undertones of all of this as the discussion might otherwise lead you to believe. And I am optimistic that I will ultimately be able to support the committee bill. And I'm sure—the gentleman from Iowa is shaking his head in the affirmative. I would not like us to leave this room with the understanding or the thought that it's not going to happen, because I hope that it does.

Chairman NEAL. Are there other Members who seek recognition?

[No response.]

If not, the subcommittee will stand adjourned.

Mr. DRAPER. Thank you very much, Mr. Chairman.

Chairman NEAL. Thank you, sir.

[Whereupon, at 12:22 p.m., the hearing was adjourned.]

TO AUTHORIZE APPROPRIATIONS FOR TIED AID CREDIT

TUESDAY, DECEMBER 3, 1985

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON INTERNATIONAL FINANCE,
TRADE AND MONETARY POLICY,
COMMITTEE ON BANKING, FINANCE AND URBAN AFFAIRS,
Washington, DC.

The subcommittee met, pursuant to call, at 10 a.m., in room 2220, Rayburn House Office Building, Hon. Stephen L. Neal (chairman of the subcommittee) presiding.

Present: Chairman Neal; Representatives Levin, Fauntroy, Morrison, Grotberg, and McMillan.

Also present: Representative Doug Bereuter of the full committee.

Chairman NEAL. I would like to call the subcommittee to order at this time.

This morning we will examine the budgetary implications of H.R. 3667, the Competitive Tied Aid Fund Act.

Our witness will be David Mulford, Assistant Secretary of the Treasury for International Affairs.

Mixed credits are the most significant remaining loophole in the OECD arrangement on export credits. In 1980, the OECD reported mixed credit offers of around $2.1 billion; by 1984, mixed credit offers had risen to nearly $6.5 billion. Negotiations aimed at ending the use of mixed credits are at an impasse.

It is widely believed within the Congress and the administration that only with a potent negotiating tool such as H.R. 3667, which creates a $300 million fund to support offers of $2 to $3 billion in mixed credits, can we succeed in inducing our competitors to negotiate greater discipline over this odious practice.

On November 7, the Subcommittee on International Finance reported H.R. 3667 by a unanimous vote, 19 to zero. Two weeks later the full committee voted to postpone consideration of H.R. 3667. Debate in the committee revealed considerable concern over its budgetary implications, in particular its impact on other programs under the committee's jurisdiction. The committee voted to delay final action so these questions could be examined more closely.

I have asked our witness to focus squarely on the budgetary question. Specifically, what is the budgetary rationale for appropriating $300 million to a Treasury fund, instead of relying on the existing authority and budgetary resources of the Export-Import Bank to offer tied aid credit? Could Exim offer mixed credits on its

own to the same extent and on the same terms as it could be offered in conjunction with a $300 million Treasury fund? If it attempted to do so, what impact would that have on its ability to offer conventional financing, and what impact would it have on Exim capital? Further, what consequences would follow from a possible depletion of Exim's capital?

I had also invited the Office of Management and Budget to send an official to address a related set of questions. In Mr. Miller's November 21 letter to the committee, he indicated that, for budgetary scorekeeping purposes, the administration considers the War Chest Program to be part of subfunction 155.

What does that imply? If funds were appropriated for this war chest, how would funds for other programs in that subfunction, or for any other program under the jurisdiction of the Banking Committee, be affected? What are OMB's plans for requesting the appropriations authorized by H.R. 3667? Is there room for such appropriations under the Congressional Budget Resolution? If not, what special action would have to be taken?

Unfortunately, OMB has declined to send a witness to answer these questions. Instead, we have a letter from Mr. Miller outlining OMB's response. It indicates that:

> The timing of an appropriation request—for the war chest—and potential budget offsets are still under executive branch consideration. Since a decision has not been reached yet, it would be inappropriate to discuss these matters with your subcommittee.

I hope Mr. Mulford can shed some light on these questions, even though they relate to budgetary procedures not directly within Treasury's responsibility.

At this time I would like to welcome Mr. Mulford, and we look forward to his testimony.

Excuse me. Are there other statements other committee members would like to make at this time?

If not, Mr. Mulford, please proceed.

STATEMENT OF HON. DAVID C. MULFORD, ASSISTANT SECRETARY OF THE TREASURY FOR INTERNATIONAL AFFAIRS

Mr. MULFORD. Thank you, Mr. Chairman.

I am pleased to appear before this subcommittee to testify on H.R. 3667, the Competitive Tied Aid Credit Fund Act.

H.R. 3667, as unanimously reported by the subcommittee, contains the essential elements of the war chest proposal made by the President as part of the trade package announced in September.

It is a key element of our attack on foreign unfair trade practices. I am here today to respond to questions from a number of members as to why the administration's war chest proposal requires new budgetary authority rather than funding from Eximbank's capital and reserves.

The administration is seeking a new appropriation for the war chest for the following reasons:

First, new funding will substantially increase the effectiveness of an offensive, targeted war chest and underscore the importance which Congress and the President attach to negotiating the elimination of tied aid credit abuses.

Second, new funding is required to maintain the integrity of Eximbank's financial position and to ensure that the Bank's ability to support U.S. exports under normal export credit terms is not impaired.

Third, the approach embodied in H.R. 3667, if supported by an appropriation of new money, is a cost-effective means to end tied-aid credit abuses, thus expanding U.S. export opportunities and preserving U.S. jobs in the export sector.

The war chest will be targeted at those sectors and markets of particular importance to countries impeding negotiations. Since the proposed program is aggressive and preemptive and not available to all exporters, it is fundamentally different from normal Eximbank activities. By placing the war chest in Treasury, which is the lead agency in negotiations, we would not alter the basic approach of Eximbank, which is to offer competitive financing for exports in a nondiscriminatory manner.

Creation and funding of a new program in Treasury is imperative if we are to have credibility in the negotiations with our trading partners. If a war chest were to be enacted but not funded, the Europeans, especially the French, would certainly view the legislation as an empty threat.

Since the administration proposal was transmitted to Congress, members of this subcommittee and of the full Banking Committee have continually stressed the need to maintain the integrity of Eximbank's financial position and to ensure that the war chest proposal would not compromise Eximbank's normal export credit activity.

A tied aid credit program is very expensive, given the high level of subsidization required. The most honest and straightforward way to fund this program is to appropriate money for it. Substantial use of Eximbank's reserves for this purpose would accelerate depletion of Eximbank's already dwindling capital and reserves.

If the Tied Aid Credit Program were to be in Eximbank, it would significantly decrease the Bank's net income over the next 30 years, thus further depleting its capital and reserves. Our proposal would support up to $1 billion in U.S. tied aid credits over the next 2 years.

If $1 billion of tied aid credits were supported through soft loans in Eximbank during the next 2 years, we estimate that the cost to Eximbank would amount to $600 to $900 million in nominal terms, depending upon the grant element, and this cost would be borne over the next 30 years.

Due mainly to heavy subsidies in previous lending activities, Eximbank's capital and reserves are already being depleted at a rate of $300 to $400 million per year, even without new tied aid credits. We should not exacerbate this problem by adding yet another burden on the Bank's dwindling capital and reserves. If we wish to subsidize our exports for the purpose we propose, we should be willing to appropriate the money for it now.

If Eximbank is directed to create the Tied Aid Credit Program, it is likely that this program would be funded within Eximbank's existing lending authority, thus reducing the authority available for normal export financing by at least $300 million. However, if Treasury were to receive a new $300 million appropriation for the

Tied-Aid Credit Program, that would not affect Eximbank current lending authority.

Actual total budgetary outlays in fiscal year 1986 and fiscal year 1987, as contrasted with budget authority, under a fund appropriated to Treasury would not differ significantly from outlays in a program using Eximbank's capital and reserves. Budgetary outlays under either approach would be small during fiscal year 1986 and fiscal year 1987, due to the long disbursement periods inherent in project financing.

The war chest proposal embodied in H.R. 3667 is a well-focused, cost-effective way to attack the predatory and unfair trade practice of tied aid credits. By taking aggressive and timely action to end this practice, we will help all U.S. exporters, and not just the relatively few that might benefit from defensive use of tied aid credits for an extended period of time.

An end to the predatory misuse of tied aid credits will greatly increase U.S. export opportunities. Many opportunities now denied our exporters by the proliferation of tied-aid practices will become available, thereby preserving U.S. jobs in the export sector. Most importantly, we will have leveled the playing field at a fraction of the cost to U.S. taxpayers that would have been incurred under defensive proposals to match and thus perpetuate the distorting practice of tied-aid credits for commercial purposes.

The legislation before you this week provides a practical and realistic approach to give American business an opportunity to compete fairly in the world marketplace. We urge early approval of the Competitive Tied Aid Fund Act for a grant program in Treasury, if we are serious about negotiating the elimination of this unfair trade practice.

Thank you very much, Mr. Chairman.

[The prepared statement of Mr. Mulford follows:]

FOR IMMEDIATE RELEASE
EXPECTED AT 10:00 A.M.
DECEMBER 3, 1985

STATEMENT OF THE HONORABLE DAVID C. MULFORD
ASSISTANT SECRETARY OF THE TREASURY
FOR INTERNATIONAL AFFAIRS
BEFORE THE SUBCOMMITTEE ON INTERNATIONAL FINANCE, TRADE AND MONETARY POLICY
COMMITTEE ON BANKING, FINANCE AND URBAN AFFAIRS
HOUSE OF REPRESENTATIVES

Thank you, Mr. Chairman. I am pleased to appear before this Subcommittee to testify on H.R. 3667, the Competitive Tied Aid Credit Fund Act. H.R. 3667, as unanimously reported by the Subcommittee, contains the essential elements of the War Chest proposal made by the President as part of the trade package announced in September. It is a key element of our attack on foreign unfair trade practices. I am here today to respond to questions from a number of members as to why the Administration's War Chest proposal requires new budgetary authority rather than funding from Eximbank's capital and reserves.

The Administration is seeking a new appropriation for the War Chest for the following reasons:

(1) New funding will substantially increase the effectiveness of an offensive, targeted War Chest and underscore the importance which Congress and the President attach to negotiating the elimination of tied aid credit abuses.

(2) New funding is required to maintain the integrity of Eximbank's financial position and to ensure that the Bank's ability to support U.S. exports under normal export credit terms is not impaired.

(3) The approach embodied in H.R. 3667, if supported by an appropriation of new money, is a cost-effective means to end tied aid credit abuses, thus expanding U.S. export opportunities and preserving U.S. jobs in the export sector.

Increasing Negotiating Leverage

The War Chest will be targeted at those sectors and markets of particular importance to countries impeding negotiations. Since the proposed program is aggressive and preemptive and not available to all exporters, it is fundamentally different from normal Eximbank activities. By placing the War Chest in Treasury, which is the lead agency in negotiations, we would not alter the basic approach of Eximbank, which is to offer competitive financing for exports in a nondiscriminatory manner.

Creation and funding of a new program in Treasury is imperative if we are to have credibility in the negotiations with our trading partners. If a War Chest were to be enacted but not funded, the Europeans, especially the French, would likely view the legislation as an empty threat.

Maintaining the Financial Integrity of Eximbank

Since the Administration proposal was transmitted to Congress, members of this Subcommittee and of the full Banking Committee have continually stressed the need to maintain the integrity of Eximbank's financial position and to ensure that the War Chest proposal would not compromise Eximbank's normal export credit activity. A tied aid credit program is very expensive, given the high level of subsidization required. The most honest and straightforward way to fund this program is to appropriate money for it. Substantial use of Eximbank's reserves for this purpose would accelerate depletion of Eximbank's already dwindling capital and reserves.

If the tied aid credit program were to be in Eximbank, it would significantly decrease the Bank's net income over the next twenty years, thus further depleting its capital and reserves. Our proposal would support up to $1.0 billion in U.S. tied aid credits over the next two years. If $1.0 billion of tied aid credits were supported through soft loans in Eximbank during the next two years, we estimate that the cost to Eximbank would amount to $600-900 million in nominal terms, depending on the grant element, and this cost would be borne over the next thirty years.

Due mainly to heavy subsidies in previous lending activities, Eximbank's capital and reserves are already being depleted at a rate of $300-400 million per year, even without new tied aid credits. We should not exacerbate this problem by adding yet another burden on the Bank's dwindling capital and reserves. If we wish to subsidize our exports for the purpose we propose, we should be willing to appropriate the money for it now.

If Eximbank is directed to create the tied aid credit program, it is likely that this program would be funded within Eximbank's existing lending authority, thus reducing the authority available for normal export financing by at least $300 million. However, if Treasury were to receive a new $300 million appropriation for the tied aid credit program, that would not affect Eximbank's current lending authority.

Actual total budgetary outlays in FY 86 and FY 87, as contrasted with budget authority, under a fund appropriated to Treasury would not differ significantly from outlays in a program using Eximbank's capital and reserves. Budgetary outlays under either approach would be small during FY 86 and FY 87, due to the long disbursement periods inherent in project financing.

Expanding U.S. Trade Opportunities

The War Chest proposal embodied in H.R. 3667 is a well-focused, cost-effective way to attack the predatory and unfair trade practice of tied aid credits. By taking aggressive and timely action to end this practice, we will help all U.S. exporters, and not just the relatively few that might benefit from defensive use of tied aid credits for an extended period of time.

An end to the predatory misuse of tied aid credits will greatly increase U.S. export opportunities. Many opportunities now denied our exporters by the proliferation of tied aid practices will become available, thereby preserving U.S. jobs in the export sector. Most importantly, we will have leveled the playing field at a fraction of the cost to U.S. taxpayers that would have been incurred under defensive proposals to match and thus perpetuate the distorting practice of tied aid credits for commercial purposes.

The legislation before you this week provides a practical and realistic approach to give American business an opportunity to compete fairly in the world marketplace. We urge early approval of the Competitive Tied Aid Fund Act for a grant program in Treasury, if we are serious about negotiating the elimination of this unfair trade practice.

Chairman NEAL. Thank you, sir.

In the President's speech—I believe it was in September—he outlined a new approach to trade from within the administration, and the only substantive feature of that was this tied aid proposal.

Yet, as late as yesterday, we get a letter from the Office of Management and Budget saying that they don't know how they are going to deal with appropriating money for this. I appreciate very much your testimony concerning the relationship of this program to Eximbank and agree with everything you have said.

We still have this question concerning the budget impact and it was the question that most troubled the full committee when we dealt with this and since we didn't have a clear answer, it was the main reason that this matter was postponed and the main reason we called an additional hearing on it and we are essentially left with that question unanswered.

I would very much like for you, if you can, to comment on it. I know it has put you in a little bit of a difficult position having to speak for the Office of Management and Budget. Maybe you cannot do it, but I just want to make it clear that is one major unanswered question remaining.

I get the feeling that the administration is not of one mind on this subject. Very possibly, the OMB wants to kill it by not cooperating. We have several options.

We can try to understand clearly from this hearing what the posture of the administration will be. I guess we could subpoena OMB people, try to get them here to explain what they are going to do about this.

Of course, we would rather not do that if there is another way. Let me say there is some urgency about this. We understand that the administration was going to try to get the Senate to attach this legislation to a supplemental appropriation or continuing resolution, something of that nature, and at that time seek additional appropriations.

Since that was our understanding, we had no hesitation in telling other members of the committee that this would not impact negatively on Eximbank's continuing operations and would not weaken the Eximbank in any way.

From the response that we got from OMB, I can no longer say that. We simply don't know. So anyway, I hope our distinguished witness will understand the problem that we are faced with and try to deal with it as best he can.

Mr. MULFORD. Would you like me to respond to that?

Chairman NEAL. Please. Yes.

Mr. MULFORD. I think we have to keep in mind the perspective of time and other considerations which have a bearing on this.

First of all, this proposal was developed during the course of the summer. I think it is a very original, a very promising proposal with a real chance for success in a field that has been a major problem for the United States, as you know, for some years.

In fact, we have already seen some impact already in our relations with the various European countries just by having tabled this war chest legislation. People are certainly very concerned about it It will have, we are convinced, beneficial impact on our negotiating position over time.

My point is this approach was conceived and proposed prior really to the emergence of the Gramm-Rudman exercise. It was clear as a matter of principle that a war chest would be set up and it would be given effect by supplemental funding. At the time that the war chest was conceived and considered, agreed on by the administration and used as an important part of the President's trade initiative in September.

Supplemental funding was absolutely critical to setting it up in such a way that it would have a chance to for success in terms of negotiating strength. This principle is firmly agreed by the administration and OMB is certainly onboard on that principle.

In the meantime, Gramm-Rudman has emerged. I can't speak for OMB's present state of mind on broader issues that are related to Gramm-Rudman. They obviously feel that they are in a period of delicate considerations because they have a broad range of problems that are affected by that legislation.

But in our opinion, it does not change the basic and fundamental commitment that was made by the administration. Speaking for the Treasury and for Secretary Baker, there is absolutely no doubt that the war chest must be funded by supplemental funds, that it should not be offset against Eximbank——

Chairman NEAL. Or any other program?

Mr. MULFORD. Or the programs that were mentioned, housing or IFI's. That is absolutely critical.

Chairman NEAL. You are talking about an entirely new appropriation not to be offset by any other appropriation.

Mr. MULFORD. We are talking about an entirely new appropriation as far as the Treasury is concerned.

Chairman NEAL. Let me read to you from Mr. Miller's final paragraph.

> Regarding your further questions, the timing of an appropriation request and potential budget offsets are still under executive branch consideration. Since a decision has not been reached yet, it would be inappropriate to discuss these matters with your subcommittee.

I honestly have to say I appreciate your comments. Your comments are consistent with the understanding that we have had throughout the—consistent with what I reported to our full committee. What is not consistent is the comments made by the Office of Management and Budget. It is that which leads me to think the administration is divided, which creates problems for the committee.

You understand my problem here, don't you?

Mr. MULFORD. I understand your problem, yes. I think it is also clear that the wording of that letter is meant, I think, to take account of the fact that offsets may be required if Gramm-Rudman passes, and they may be required against outlays. Since that has not materialized yet, that legislation has not passed, my own view is that OMB is simply protecting their position.

I wouldn't read so much into it, I think, as you do. I would like to emphasize that I can't speak for OMB, and I am not up here for the purpose of speaking on behalf of OMB this morning.

Chairman NEAL. I understand. But it is a program that you want and I want and my concern is that we are not going to get it through the committee if we don't have clear answers to this ques-

tion. You just said—maybe I misunderstood you—you said that you weren't sure that there wouldn't be offsets of some kind. Maybe we are talking about two different things here, but before that you said we would be talking about an entirely, totally new appropriation, not offset against any other appropriation.

Mr. MULFORD. As I said before, offsets may be required by Gramm-Rudman if it is passed. The offsets may be required against outlays. We can't at this moment, I think, foresee that eventuality. Our concept is clearly that the war chest must be new money insofar as the Export Credit Financing Program is concerned, and not taken from Eximbank. If it is taken from Eximbank—and nobody is proposing that solution at this point, it could undermine our negotiating position very, very substantially. It would also have a negative influence on Eximbank and our Export Credit Program in general.

That point is clearly understood by all of us at Treasury. It is a strongly held view of the Secretary that this should not be allowed to happen and that the funding for the war chest should be separate and independent from Eximbank's capital and reserves.

Chairman NEAL. I agree with you, and I understand you are expressing the position of the Treasury. The problem remains with OMB.

Mr. Fauntroy.

Mr. FAUNTROY. Mr. Chairman, I need to get one thing clear from Mr. Mulford's response to your last question. Mr. Mulford, you suggested that offsets may be required should Gramm-Rudman pass.

Mr. MULFORD. Since Gramm-Rudman has not yet passed, none of us know exactly what it is going to say.

Mr. FAUNTROY. My question relates to the paragraph which Chairman Neal read, which suggests to me that OMB agrees with CBO that if the Appropriations Committee stays within its present allocation that offsets will be required if we were to fund this war chest.

Is that your understanding?

Mr. MULFORD. I don't know what OMB thinks. I can't speak for them. I don't see how anybody can.

Mr. FAUNTROY. Well, CBO has the view——

Mr. MULFORD. The legislation has not passed. We don't know what is going to be required.

Mr. FAUNTROY. I am not talking about Gramm-Rudman. It has been suggested to us by OMB that if the Appropriations Committee stays within its present allocations, the funding of this war chest would require some offsets. Thus, it seems reasonable to us that if these offsets are required within those limitations, allocations presently adopted that the administration ought to spell out how it intends to proceed with the budget request in light of that. I think that is the nature of the question which was raised by the committee.

Mr. MULFORD. Well, I don't agree with your proposition that it would absolutely require offsets. That is certainly one interpretation. If that were to be the way things went, whether for the reasons you have described or because Gramm-Rudman required that there be offsets, then we in Treasury operating under the law would work with Congress, with this committee to find the appro-

priate ways to offset that would not impair housing, IFI's, or the Eximbank.

Mr. FAUNTROY. Some members wanted to know——

Chairman NEAL. Walter, let me say even without the passage of Gramm-Rudman, the Congressional Budget Office says that "assuming an appropriation in fiscal year 1986 for this program and that the Appropriations Committee stays within its allocations, other programs that were assumed in the budget resolution would have to be cut."

I think that is clear. We passed a budget resolution around here and this was for 1986. This would be an appropriation of funds for 1986 and unless we take it out somewhere else we would be outside of the budget limitations we set on ourselves.

So the administration has proposed, and it has been our understanding all along, they would propose a new appropriation and I had thought an amendment to our budget. I believe that is what our witness is telling us has been their plan all along. Am I correctly stating that?

Mr. MULFORD. The position of the administration, as I indicated in my opening remarks, was, and still is, that this should be supplemental funding. I made that clear. That is the point of principle here.

Some things have since intervened which have clouded the issue and have caused you some concern. I have also indicated, the Treasury position on this during a period of uncertainty involving Gramm-Rudman.

I have further said that should we be put into a mode where offsets are required, then we will work with you to find the appropriate places for those offsets. I would add to that that we are not talking here about a great deal of money. We are talking about, for example, in fiscal year 1986 estimated outlays of $14 million between $10 to $15 million.

We estimate outlays under our war chest to be $14 million and about $57 million in 1987. Even if we were talking about an offset procedure after Gramm-Rudman were enacted, I don't think we are talking about a very difficult problem to work out with members of the committee.

Chairman NEAL. What would you have in mind at this time?

What would you think would be appropriate for this?

Mr. MULFORD. We have certainly made commitments concerning where we would not offset. We would discuss the question with you when it comes up and work out whatever seemed the best offsets.

We have not made any previous commitments or given much thought to exactly what——

Chairman NEAL. In the area there is commitment out of that process, as I recall you are saying, where Eximbank——

Mr. MULFORD. Housing——

Chairman NEAL. Housing, IFI's.

Mr. MULFORD. It could be anywhere else in the budget effectively.

Chairman NEAL. Well, could it? Under current procedures, wouldn't it have to be somewhere else under category 155?

Mr. MULFORD. Well, my understanding is that although we have made the comment about 155, it could come from anywhere.

Chairman NEAL. I think that is right. I have taken too long.

Mr. McMillan.

Mr. MCMILLAN. I think there is no point in trying to fix the responsibility for determining where it comes from on OMB or CBO or us. It really rests with us. The funds aren't in the budget that the Congress has adopted.

They are not in the budget that the President proposed originally.

So they are going to have to come from somewhere else. Either it is an additional appropriation or we determine and find a place where it can be offset.

I would like to ask a couple of questions to get that in a little bit better focus. You mentioned the figure of, I think, $16 billion in estimated outlays in 1986.

Mr. MULFORD. $14 million.

Mr. MCMILLAN. $14 million. Excuse me. We have got an estimate here from CBO that spreads it out over 5 years. What is the basis for estimating the magnitude of the outlays at this point?

Mr. MULFORD. Well, the basis is an estimate of how business requests will come in, and then would be funded as they were implemented. It is an estimation of business. You can only rely on past records of disbursements over time. That same pattern is likely to be followed.

Mr. MCMILLAN. That is assuming that we did what we really don't want to do and that is use it. We really would prefer it sit there as a threat and provide the leverage for negotiation that eliminates the necessity for using it.

Mr. MULFORD. No. I think we don't take that view. We view this as a finite amount that would be set aside under the terms described in the previous testimony and used very aggressively by us to succeed in the negotiations and in the meantime to effectively win business.

Mr. MCMILLAN. OK. Then that leads to my next question.

If the magnitude is only that amount, why would it be such a negative impact on Eximbank to utilize those funds for the same purpose?

Mr. MULFORD. First, Eximbank would have to use its ordinary resources which it would commit in any case to its regular export financing credit business. Second, it would have to use its format which is a combination of soft grant loans and normal Eximbank financing. This would entail as I said in my testimony, a significant drain on Eximbank's capital and reserves mounting between $600 and $900 million in nominal terms depending on the grant element. Therefore the effect on Eximbank over the years would be far greater than if we use this pure grant fund in the Treasury as the war chest.

Mr. MCMILLAN. I don't quite follow that because a grant is a grant regardless of whether it runs in Treasury or what because those grants are going to be supported by additional financing anyway, are they not?

Mr. MULFORD. Well, what happens in the case of Exim is that they would enter into an interest rate buydown which is spread over 30 years, and which over that period of time has a greater

impact than an upfront, one-time grant. We can give you a written explanation of how those numbers work out. That is the first point.

The second point is it takes resources which we want them to continue to use in their normal business. It also accelerates the depletion of their reserves if we simply look to Exim. Finally and I think this is the most important point as far as I am concerned, it takes credibility out of our position in the negotiations.

We have already seen over the years what those across the table from us think when we say we are going to increase Exim's activity in this area. They know what Exim's resources are.

They know Eximbank's limitations. They know that it has got competing demands on its resources. They are going to treat those statements in the future as they have in the past—as wet ammunition.

Mr. MCMILLAN. Would you redefine for a minute what are Exim's resources at this point?

Mr. MULFORD. I don't think I can do that off the top of my head.

Mr. LEVIN. Would the gentleman yield?

Mr. MCMILLAN. Yes.

Mr. MULFORD. Direct lending resources $1.8 billion.

Mr. MCMILLAN. $1.8 billion, in contrast to———

Chairman NEAL. Well, that is the authority.

Mr. MULFORD. That authority, if used for soft loans, would decrease authority available for other Eximbank activities.

Chairman NEAL. I am not sure that is the number that Mr. McMillan really wants.

Mr. MCMILLAN. I guess what I am trying to determine is what would be the impact of saying, all right, since we don't have any other alternatives, no one has proposed one yet as to where this $300 million is going to come from, suppose we did proceed along the tack that Eximbank's reserves could be utilized for this purpose. What would be the impact?

I am trying to quantify the impact on Eximbank.

Mr. MULFORD. The impact would be that it would cost Eximbank more. Second, it would have a greater impact on their capital and reserves sooner and, therefore, deplete those resources sooner. This would require them to come to Congress sooner to beef up their capacity once again.

Chairman NEAL. Just like the IMET program we rejected.

Mr. MCMILLAN. I understand.

Whether we make a grant through Treasury or grant through Eximbank, it seems to me it isn't going to be the total financing of the export business in and of itself. It is tied to something else. It is tied to financing whether it is Exim financing or private financing and, therefore, I really don't understand why the cost is more one way or the other.

Mr. MULFORD. Well, I think what we should do is give you a written answer to the cost question because it is complex. In the case of Exim it can be compared to mortgage financing. It has a long-term impact over a period of years. When you add that impact over the long run, it is greater on Exim's earnings and capital than if it is done out of the Treasury from a specific fund.

Mr. MCMILLAN. But it is going to have an impact on someone else. This $300 million to the extent it is tied to some other credit is going to have a cost impact on whoever else participates in it.

Mr. MULFORD. That is true. The impact of the $300 million fund is an upfront, a one-time impact like points on the front of a mortgage. I would have to come back once again to the argument that if you have supplemental and additional financing in Treasury of $300 million, you then are not denuding other areas of Exim's regular business. If you turn to Exim for the commitment, you then are forcing them to make the kind of choice which is very painful, very difficult. It means they have got to reduce their regular business and put these resources to one side. Frankly, the international community won't see that as credible.

Mr. MCMILLAN. If we have got unutilized resources of $1.8 billion, the fact we are not utilizing that might be seen in the same light.

Mr. MULFORD. No. I think what perhaps I am not getting through is that we, the Treasury, are negotiating with these other countries.

Mr. MCMILLAN. I understand that.

Mr. MULFORD. We want to make it clear to them that we would like the mixed credit financing to have a much higher grant element in order to limit distributions to aid and trade.

We think it is important for Treasury to have control over these funds. It is important for these funds to be seen as incremental funds to be used in this predatory manner around the world. This approach will bring home to other governments the point that failure to negotiate with us will result in losing business or paying a lot more for the business that they get.

This is, in our opinion, the best negotiating tool we can have. After all, we have made very limited progress over the past few years. It has been possible at any time for Exim to decide to do predatory financing and launch some sort of program itself.

But it is not seen as credible. It has not been done. Even if these funds were earmarked in some way within Eximbank, we would lose the negotiating leverage that we have with our proposal. My own opinion as chief negotiator is that if we don't get this legislation, our hands are tied in such a way that we are unlikely to be successful.

I think it is as important as that.

Chairman NEAL. May I also point out, and then I will yield to Mr. Levin in a second, but I think we need to point out there is not $1.8 billion—I want Mr. McMillan to hear this also.

I think it impacts on your final question. Exim does not have $1.8 billion sitting in a bank somewhere they can just draw down $300 million of. Every time Eximbank makes a loan, it has got to go out and borrow the money in the credit market.

I know Mr. Mulford is going to supply us with a written reply, and please supply that to all committee members.

Mr. MULFORD. Yes, I will.

Chairman NEAL. But, as I understand the reason for having Eximbank do this instead of a new appropriation that would cost more is the way that it would do it. That is, the Eximbank only has the authority to buy down interest rates, is that not correct?

Mr. MULFORD. That is right. Yes.

Chairman NEAL. It is for that reason that approach would cost more than the approach you are talking about.

Mr. Levin.

Mr. LEVIN. Let me pick up on Mr. McMillan's point because we have been trying a number of us to get at this issue for a number of weeks. If I might, Mr. Mulford, let me give to you Exim's response on this question.

It just came in this morning. The chairman has a copy of the letter that I sent to Mr. Draper. Here is a copy of the letter.

You don't really need to read it. I am sorry a copy did not go to all the members. It did go to the Chairman, but they answered it before they received the letter. They began to work on it anyway.

This goes to the very issue of cost and also of the present authority and using it. On page 2 of their response it says:

> The bank's reserves currently stand at $1.1 billion down from $2.2 at the end of 1981. Even without the additional losses associated with mixed credits, we anticipate a further deterioration to $668 at the end of 1986 and to completely exhaust the reserves in 1988.

Then they refer us to attachment A. So if we could look at attachment A, and you may want to expand on it, but, Mr. Chairman, I think it would be useful for us to spend a few minutes on this issue because in addition to the question of where the $300 million would be allocated. This issue has been festering for weeks.

Mr. McMillan and others and I have been attempting to, as I say, obtain an answer. Now, what this shows is that in attachment A that if they utilize the present reserves of the bank, as implicit in Mr. McMillan's question, that they would run out of funds in 1988.

Mr. Hess and Nancy Pigman are here from Exim. I don't think they were asked to testify today, but they were good enough to come by this morning with this response. That, I think, the answer to the question raised again this morning was if you use present reserves when would you run out of money?

The answer is in 1988 there would be a deficit. That assumes an allocation of how much? Of $785 million? What does that assume, Mr. Hess, we do in this years' budget process for Exim?

Mr. HESS. That would assume a $1.8 billion lending level in this year's budget.

Mr. LEVIN. $1.8 billion instead of the——

Mr. HESS. Instead of the House mark, which is $784 million at this point.

Mr. LEVIN. That assumes $1.8 billion that was the ultimate request of the administration?

Mr. HESS. The administration requested $1.8 billion in direct loan equivalent, yes. It did not request $1.8 billion in direct credits.

Mr. LEVIN. OK. Now, if we allocated $785 million as is in the continuing resolution on our side, these figures would change?

Mr. HESS. Yes, sir. They would change slightly. In fact, the effect would actually be to accelerate the loss because we are assuming for the new credits or new credit equivalents that would be authorized in the future that because of the way the arrangement now works, they could be funded on a basis which if not at least a break even, would be a small profit.

So the future authorizations are assumed to help in these projections and the loss is due virtually entirely to loans that were committed in the past at competitive rates at the time which were subsequently funded at market rates which were much higher.

Mr. LEVIN. I think the answer to the first question, Mr. Mulford, you may want to expand on this here or later, is that if we use the present reserves that they would run out in 1988, that they could get by in 1986 and in 1987. Forgetting for a moment about the credibility issue.

Mr. MCMILLAN. Will the gentleman yield a minute?

Mr. LEVIN. Yes.

Mr. MCMILLAN. As I read this schedule, and maybe I don't understand it, but tie it to that paragraph at the top of page 2 of Mr. Draper's letter, it seems that the impact of grants as a part of Eximbank's operation is measured in line 3 so that it incrementally does not impair the reserves of Eximbank. That impairment is already underway through previous commitments.

Mr. LEVIN. It would add in 1986 $17 million and in 1987, $28 million so there would be a deficit situation in 1988.

Mr. MCMILLAN. The aggregate impact of that against Eximbank, as set forth here, is somewhat similar to, well, even less, and I don't know whether we are talking about the same amount of direct grants, but it is considerably less than the impact of outlays on the budget process that we are trying to wrestle with as suggested by CBO.

Mr. LEVIN. That is a different issue. It is a different figure, and I think it is a somewhat different issue, the outlay impact.

Chairman NEAL. Yield on that point?

Mr. LEVIN. Sure.

Chairman NEAL. There are two problems. One is the area of the outlays. We have been talking about outlays, and there is not such a big problem there. There is a $300 million problem when you get to budget authority.

Mr. LEVIN. Let's hold off for a minute where that comes from because I think we will have to come back to that. But getting to the cogent question of what about the financial impact on the bank, if it used its present reserve for the $300 million program, low interest or no interest loans, the answer is in terms of exhausting the reserves specified in attachment A.

Now, there is a second issue, and we may want to come back to it. The question which was raised after these materials were dropped off this morning. Well, what would be the impact on other programs of Exim? I am not sure I have the exact figures here, but last year there were about $5 billion in commitment—what's the term?

Mr. HESS. Preliminary commitments outstanding.

Mr. LEVIN. Preliminary commitments outstanding. And of that about $700 million—what was the figure, $750 million——

Mr. HESS. About $650 million were total authorizations in fiscal year 1985.

Mr. LEVIN. 1985 $650 million was allocated. I think the correct term isn't obligated, but allocated in their agency. So then the question we need to face as a commitment is if $650 million was allocated last year, why isn't there room, forgetting for a moment

about the credibility issue, for $300 million this year? And we are raising these questions, I think, all or most of us not in an inimical way.

We need to have the information for our own votes, and also for the edification and debate on the floor.

The answer that was given this morning—we had a brief meeting as these papers were dropped off, we—the agency hopes—expects to allocate far more than $650 million in this fiscal year, but I think we are going to need some kind of detail, some kind of indication beyond expectation if that is going to be talking about credibility, a credible answer.

See the question Mr. Mulford?

Mr. MULFORD. I am not sure I do.

Mr. LEVIN. Because last year there was $5 billion worth of commitment—what's the exact term?

Mr. HESS. Authorization, sir.

Chairman NEAL. Preliminary commitments.

Mr. LEVIN. PC's, preliminary commitments of $5 billion. Only $650 million was allocated.

Mr. HESS. Was finally authorized.

Mr. LEVIN. Was finally authorized if that is the correct term.

Now, the question is what about this present fiscal year. If that same level were sustained, there clearly would be room to use reserves for the $300 million.

Mr. MULFORD. The capital and reserves of Exim are already being depleted by its regular business. The depletion rate is sufficient to cause us at the Treasury to take the view that to add an additional burden on Eximbank at this time to carry out this special type of business would be undesirable. Then I am afraid I can't put aside the credibility problem since I have to negotiate with these countries.

Frankly, if you try to place this program in Exim, given its present realities, resources, and resource use, you are undermining the credibility of the program. Therefore you will not get a solution to the mixed credit business.

Mr. GROTBERG. Yield?

Mr. LEVIN. I didn't say set aside forever. I just mean for the purpose of analyzing the fiscal guts of this and why there has to be physically, a $300 million separate proposition. Yes.

Mr. GROTBERG. If the gentleman would verify this, attachment A is the document you requested from Exim; correct?

Mr. LEVIN. Supplied by them.

Mr. GROTBERG. Do you know if there is an assumption that there is going to be $300 million or is this business the way it is today?

Mr. LEVIN. In attachment A, the third line, it assumes for a moment, as I understand it, that $300 million was run through Exim.

Mr. GROTBERG. If the gentleman would continue to yield——

Mr. LEVIN. These would be the losses in reserves to Exim in 1986 and 1987. The additional loss in reserves—look under 1986. The loss is $404 million without the additional loss running the $300 million through Exim, so there would be an additional loss of $17 million.

The next year it would be $28 million. There would still be a positive reserve balance in Exim the end of 1987. This again gets back to Mr. McMillan's question, and others of us having asked.

Mr. GROTBERG. I have a question. You are not on the witness stand, but you are closer to this than I am, and somebody that maybe can be helpful to me. It looks to me like the Export-Import Bank is going down the tubes. If it were a private institution, we would close them. At this point it anticipates with no help at all by 1989 being $284 million in the red, right?

Mr. LEVIN. $94 million in 1988. The reserves at the end of the year would be minus $94 million with $300 million run through the bank, and without it it would be $94 million minus $29 million, right?

Mr. GROTBERG. Right. It is still $60 million.

Mr. LEVIN. $65 million.

Mr. GROTBERG. I understand the point we are talking about. We meet every year and refinance the Eximbank. But if you have to dabble with their reserves now when this condition for the next 5 years is a troubled condition like the bank examiners find in some of the banks in my district, I am going to figure we are talking not only about a $300 million buydown in interest and grants, we are talking about a bailout of the system.

If we get some form of Gramm-Rudman, we have the extraordinary impact of not knowing from year to year what is going to happen, right?

The confusion grows because the PC's are going on. Is there any reason—may I ask one question of the witness, Mr. Chairman?

Chairman NEAL. Yes, sir.

Mr. GROTBERG. Is there any particular reason, Mr. Mulford, that red flag is not up on the preliminary commitments that are already going on based on the assumption there is going to be some funding coming from the bank?

Mr. MULFORD. In my testimony I touched on——

Mr. GROTBERG. It is not your department, I understand.

Mr. MULFORD. That is right. In my testimony I touched on this. I would like to say on the numbers Congressman Levin has referred to on attachment A, my understanding is those do not include the outyear losses in net income associated with using Exim's reserves which would be enormous.

I think you should ask Exim to give you those numbers because it will show you that over a period of time this depletes Exim's capital and reserves very substantially.

The most important point, however, is that we are trying to have a negotiation where we stop this unfair practice. If we succeed, we are going to preserve U.S. jobs now. We are going to create a level playing field that implies more U.S. jobs later.

I don't think we should lose sight of those critical issues as we bog ourselves down on the financial complexities of how this thing is funded. The main thing is to get it funded soon and in such a way—and the numbers aren't very big—so that we are able to go and resolve this issue as quickly as possible.

Mr. LEVIN. I wanted to put it to the side, but since you raised it again, Mr. Mulford, I want to answer that directly, not only on my behalf, but I think on behalf of a lot of people around here. This

goes back to before I was here. You are a late bloomer—I mean the administration—in terms of worrying about the loss of American jobs through tied-aid credits. So you don't have to lecture us about the importance of that, if I might say so.

There was inserted in a previous bill a provision to fight tied aid credits, to fight mixed credits. The administration opposed that. The administration opposed it. It was only last year moving on this. It is the Congress that was a head. You were the caboose. People in the Congress were the engine. I don't mean you personally. It is before you were here. So now that you say let's be the engine, don't say Congress is the caboose.

It is an engine still ahead of you in terms of active system in this area. I don't think you ought to say that people who are worried about how you finance it are getting bogged down in figures. That is not fair. You are from the Treasury. You are supposed to be bogged down in figures. That is your job, and it is ironic that you come here and say to people on both sides of the aisle who are trying to understand how it is going to be financed, what its impact would be on other programs that is being bogged down in details.

I don't think you really mean that we are being bogged down. We have raised legitimate, necessary questions for ourselves, and for debate on the floor in an atmosphere of a $200 million—let me now lecture you—$2 trillion in national debt. We have to go first with this committee, and then on the floor and say, "Is this $300 million really necessary?"

Where is it going to come from? What is it going to impact on? Let me just say in terms of being bogged down on figures—I think it is important that we be bogged down in figures as well as principles—look at attachment B. I think you should give us some further edification in writing because this is a break out of mixed credits for the six programs authorized by Exim in the last few months.

We took out—this was again at the very last minute—the names of the projects, because that information isn't wisely disclosed to our trading adversaries. but you will see it would appear in terms of the impact, financial impact of grant versus loan that at least in these cases there is an argument that the grant is more expensive than the loan, $69 million versus $62 million.

I am not sure of the full impact as we have just seen it. I think in further answer to Mr. McMillan you ought to give to the committee your position and the evidence in the longer run which is more expensive, the grant approach or the loan approach. It may be that the grant approach is cheaper at a different point, and more expensive over a different period of time.

Mr. GROTBERG. Yield on that point?

Mr. LEVIN. Yes.

Mr. GROTBERG. Congressman and Mr. Mulford, I have yet to get an answer—maybe you can't answer—these are preliminary commitments that we are dealing with on attachment B. So the store is open, there is no money, but——

Mr. LEVIN. These are approved. These are the six PC's that were approved. This is—how much was the total? The amount of the soft loan was $104 million out of $5 billion, right? Not quite. Mr. Hess, that is not quite right.

Mr. HESS. That is not quite right, sir. These are preliminary commitments. They are not final approvals at this point in time, but you are right, the amount of $104 million would be part of the $5 million preliminary commitments.

Mr. LEVIN. This is October 17 approved.

Mr. GROTBERG. Yield further. They are still making assumptions there is going to be some money coming or they won't make the mention of preliminary commitments.

Mr. LEVIN. They have enough to cover that.

Chairman NEAL. They have an authorization level of $1.8 billion.

Mr. GROTBERG. They are not up to that yet.

Chairman NEAL. No, sir. Far below it.

Mr. LEVIN. Let me go back.

Mr. MCMILLAN. I think this was on the point, but go ahead.

Mr. LEVIN. I was going to go back to this issue of credibility. Go ahead, Mr. Chairman.

Chairman NEAL. Well, I don't want to interrupt. I think it is important we resolve this because I know Mr. Morrison is here, and Mr. Grotberg. Let's stay on this point until we get it resolved. Go ahead, Sandy.

Mr. LEVIN. Whatever. I will be glad to yield.

Mr. MCMILLAN. Yield?

Mr. LEVIN. I yield.

Mr. MCMILLAN. Let me make sure I understand B now. Are we saying Eximbank has issued preliminary approval of $69 million in grants through October 17?

Mr. LEVIN. No, no.

Mr. MCMILLAN. What is that figure?

Mr. LEVIN. The alternative is if——

Mr. MCMILLAN. Amount of grant. That would be an alternative.

Mr. LEVIN. If it were done through the alternatives, this is the cost if it were done through the—if the $300 million were run through—no. Mr. Hess, the alternative means what?

Mr. HESS. The alternative is the method by which the Treasury Department would provide a grant of, in this case, $69.1 million. The Eximbank would provide a loan of $184.8 million at standard arrangement rates and terms. That is the alternative to the first part of the schedule where Eximbank is providing both a standard loan at arrangement rates and a soft concessionary loan to bring the grant element down to the desired level.

Mr. MCMILLAN. Is it true the Eximbank under, I guess it was an initiative it took on a short term basis 1½ months ago, it is not making grants. It is making soft loans as a means of matching mixed credit.

Mr. HESS. That is absolutely right. You have a preliminary commitment which provides for either method to be used. If the grant authority is available that is one option. If it is not available the preliminary commitment provides for Eximbank to make a soft loan.

Mr. LEVIN. This is if the six projects came out of the $300 million. That is what alternative means.

Mr. MULFORD. I would like to make a comment on that, please, Mr. Chairman.

Chairman NEAL. Yes, sir.

Mr. MULFORD. You are quite right. These are new commitments that were taken on recently, and I would like to remind the committee why that was done. It was done as part of this war-chest proposal, which was made by the President in September. We wanted to create this war chest to carry out this type of financing. We understand that we had strong congressional support for it. We started Exim down that road because time is of the essence in this business.

We are in the middle of a negotiation. We started down that road by instructing Exim while awaiting the enactment of the war chest to begin this program. These are the first projects in which we made offers, but I would like to remind the committee they were offered in our belief that we would have congressional support, and that eventually they would be funded out of the war chest when it becomes law.

If the war chest is somehow derailed or changed, then we can forget about further developments.

Mr. LEVIN. Forget about these projects?

Mr. MULFORD. Forget about further use of this technique in any significant way in the international arena because it will be too costly. You need the war chest.

Mr. LEVIN. Not about these six projects you won't forget about.

Mr. MULFORD. No. They will have to be picked up by Exim with the negative impact I have been trying to describe. The idea was to start the ball rolling by having Eximbank go out in front and having the war chest coming in behind, that is, funding these with the war chest.

Now, if it turns out the war chest doesn't come into being, then I don't think we should assume that Exim is just going to go right on making a whole lot of new tied aid credit commitments. That is why our credibility internationally in this negotiation will be undermined.

Chairman NEAL. Let me see if I can summarize briefly, and I may not be able to, to the satisfaction of members who are asking these questions. As I understand it, we have got two main questions. We have got this budget question which we have to put aside for a second because of OMB's responsibility.

Then we have this question of assuming we want to do this how best to fund it. Now, it is my understanding that if we use Exim's resources, we will weaken the Eximbank. It will be less effective. It will be more costly over time, and it will weaken our credibility in the international negotiation.

Now, I guess I want to know if Mr. Levin, Mr. McMillan, and others who have been raising these questions agree with that at this point or not, and if they do not, let's try to get it resolved. If there is any doubt, let's try to get at least these questions resolved. Yes, Mr. Morrison.

Mr. MORRISON. Mr. Chairman, I did come in late, and I apologize, and maybe in my searching to understand where we are, I will help to get to the chairman's summary, but if I could ask the witness a couple of questions, maybe that will help.

Chairman NEAL. Proceed.

Mr. MORRISON. Mr. Mulford, if I could, assuming that we want to use this mixed credit approach and that questions now that exist

are: Is there a separate Treasury role, or is it all done through Exim, and where does the money come from, my first question to you is what you are saying about Exim is that under present authority, present statutory authority, it cannot use the grant approach. Is that correct?

Mr. MULFORD. Not in the way conceived by the war chest.

Mr. MORRISON. It can't use the grant approach, and it is your testimony using the grant approach is cheaper in the long run?

Mr. MULFORD. Yes.

Mr. MORRISON. So you think the grant approach ought to be there.

Mr. MULFORD. And more effective.

Mr. MORRISON. If we accept that, we could give Exim—instead of creating a Treasury war chest that authority to deal with that one point. I am going to go on to your other concerns in a minute.

If we gave Exim the grant authority rather than creating a Treasury war chest, the problem of the cheaper, more effective use of grants rather than soft loans would be solved. Is that right?

Mr. MULFORD. Well, there are two problems. First, as I understand it, you might consider giving them the authority, but not the resources. You seem to be assuming the resources are there. We have already said the resources are short.

Second, there is a more serious problem, namely that Exim could be required to use that authority on a broad basis because it has a mission to serve the entire exporting community.

It would not be able to pinpoint, as the Treasury will be able to, the specific pieces of business that will be most telling for the purpose of the negotiation.

Mr. MORRISON. That depends on what the authority is, how it is granted, and under what conditions it is granted. In other words, those are all options. We are writing legislation here. We could write whatever legislation we wanted.

I am just trying to pull apart the parts of your concern. You are saying Treasury. You are assuming Treasury is going to have this very broad discretion, and it is going to use it in a more targeted fashion than Exim is using its discretion under existing—but assuming that the language is the same for Treasury and for Exim as to how to use this program doesn't seem to me that you have answered that question.

Mr. MULFORD. Let me try to give you an additional point on that. Yes, the Treasury can target more effectively, but another point is that we all believe that this mixed credit financing for commercial purposes is an undesirable activity. We would like to reach an agreement so that it is eliminated as a problem.

One of the reasons that we have placed this in the Treasury is to, as I have already said, conduct the negotiations effectively and also to make sure that when those negotiations are successfully concluded, the practice ends. Your proposal raises a possibility that has troubled, I know, a lot of people in Congress; that somehow if you take this step, you lay the basis for a long-term entitlement program that you can never get rid of, et cetera.

I think the location of this program in the Treasury on a temporary basis, while you sort out the problem, conclude the negotiation, and then eliminate the practice, guards against that concern.

Mr. MORRISON. My next question is if we want to do the grant approach rather than what Exim is currently empowered to negotiate regardless of which place we do it, we then have to find the money. Now, as I understand it, your proposal is $300 million in new authority that will have to be appropriated separately above prior budget submissions. This is new money.

Mr. MULFORD. Yes.

Mr. MORRISON. So you are saying we should spend an additional amount of money in order to save American jobs.

Mr. MULFORD. In order to——

Mr. MORRISON. And to improve the trading climate in the world.

Mr. MULFORD [continuing]. To get rid of this practice which will then save American jobs. If we get rid of the practice and compete on a level playing field with all these countries, we will have a basis for creating American jobs.

Mr. MORRISON. You think we should spend this $300 million which I guess you are suggesting is sort of an investment in future economic well-being, but we shouldn't pay for it. In other words, we shouldn't raise taxes or cut somewhere else to pay for this $300 million.

Mr. MULFORD. That is a question I am not addressing here.

Mr. MORRISON. Why not?

Mr. MULFORD. Because I have made it clear that we propose to finance this through a supplemental.

Mr. MORRISON. With a supplemental? We don't have any money. We can't even borrow any money, as I understand it. We are out next week. So I don't quite understand how you can be asking for $300 million, and say we are the left hand, so we don't have to discuss the right hand because OMB isn't here.

Your proposal is $300 million new appropriation, and you are not really saying where it comes from. Is that what Treasury's testimony is?

Mr. MULFORD. We have laid the basis out in two testimonies now for what is an outstanding idea to cure a very serious problem. We think it can be done at a relatively low cost, and with far-reaching benefits. The administration, having considered the same points that were made in the testimony, agreed that this would be a new program. The President himself of course agreed and proposed it in his speech as a new program.

Mr. MORRISON. You propose we go $300 million more in debt to do this basically. I am not saying that is wrong. I just want to know if that is what the proposal is. I have heard a lot of rhetoric about other proposals that suggest that is original sin.

Mr. MULFORD. I don't know. It is a little hard to give a pat answer to your question because I think you, yourself, must know that the effect of not doing anything is also very costly. It is hard to calculate, but it is there in the loss of jobs.

Mr. MORRISON. That is true of most everything we spend up here.

Mr. MULFORD. I think it is a very tough question to answer in the way that you have put it.

Mr. MORRISON. I don't think that is much of an answer. Thank you, Mr. Chairman.

Chairman NEAL. Let me——

Mr. LEVIN. I just wanted to——

Chairman NEAL. Excuse me one second, if I may.

Mr. LEVIN. I wanted to ask a few more questions.

Mr. GROTBERG. Thank you very much. I will hold for a moment because I am still trying to understand the whole mess, and I think I have the main ingredients, Mr. Chairman.

The gentleman was not far wrong over here. He was getting a little political, but that is legal at the table.

Mr. LEVIN. Never happened before.

Mr. GROTBERG. And you did your share, too, Congressman, but I have no political axe to grind if we are going broke, but spending debt in alternative manner is all we are talking about, and I think some of my vendors in my district are deeply involved in supplemental B and some others and have a keen sense of commitment that something good should happen.

If something good happens, it could be good for the unemployment and the employment posture of basic industries in general. My quarrel is with the Export-Import Bank not with Treasury. I think we are killing the messenger instead of the message here. If the gentleman needs $300 million to float this idea, that it was probably a good thing, Mr. Chairman, so I think we should get on with the day's work and stop hammering away at it, and either vote it up or down. Thank you.

Chairman NEAL. Well, there is a question remaining. Let me say we have done everything we know—you know we are perfectly willing around here to spend $300 billion on defense—and we tried to paint this in the most attractive light, call it a war chest, talk about going after other people, really talk tough, and all that so, we thought people would understand this was really tough stuff and just come right up with the money, but golly, here are all these questions. It is hard to understand.

Mr. GROTBERG. If it is my time, I did sign off, Mr. Chairman. I still don't have an answer why the preliminary commitments are going on and on as if we had already passed the bill. It may make good bargaining stuff overseas. Does the overseas community expect us to do something? Do our competitors overseas as you are wheeling and dealing, do they expect Congress to do something as you are making preliminary commitments as to the strength of this——

Mr. MULFORD. On the war chest?

Mr. GROTBERG. Yes.

Mr. MULFORD. There would certainly be a recognition so far among the negotiators that the war chest represents a very real threat. It has caused them already to begin to rethink their positions. This isn't going to continue. We aren't going to be able to bring this to fruition if there is some hitch here, and we don't get the war chest.

Mr. GROTBERG. Is there any fallout between the decline of the dollar again? Is this part of that package of forcing international hands to say America will fight back?

Mr. MULFORD. Well, the decline in the value of the dollar will, of course, have an impact on our trade balance over time, and on our competitive position. That is another factor in the whole scene, but that is not specifically tied to the war chest.

Mr. GROTBERG. I understand, but when you put all the weapons in the war chest, does this aid and abet bringing America into line internationally?

Mr. MULFORD. It certainly will help, absolutely.

Chairman NEAL. Is your question about ongoing Exim activity?

Mr. GROTBERG. He can't answer for Exim. I understand that.

Chairman NEAL. I am not quite following you.

Mr. GROTBERG. They are making or considering preliminary commitments as if this bill had passed, and it bothers me.

Chairman NEAL. Not quite. They are not doing quite the same thing. They are going about the same purpose in a little different way, a way which the testimony indicates is more expensive and they are anticipating the war chest that the subcommittee did pass it 19 to 0. We have passed our own version a couple of years ago.

It seems to me that is a reasonable assumption that there might be some activity in here. I was surprised also. I think they probably should have waited because they are doing it in a more expensive way. They haven't done anything for years. They had the authority to do it earlier. They didn't, but anyway——

Mr. MULFORD. If the war chest is passed it won't be more expensive.

Mr. MCMILLAN. May I ask one more question on that?

If you look at exhibit B, which measures commitments in the aggregate $255.9 million under two alternative assumptions, one accommodation soft and standard loan, which you say would be more expensive, and in the alternative, as I understand it, over on the right would indicate how that would work under a grant approach, that is $69.1 million worth of grants and $186.8 million of Exim loan banking up those grants. What they refer to as standard loan on the left-hand alternative, and the $186.8 million Exim loan on the right, would those so-called standard loans be at market rates?

Mr. MULFORD. At arrangement rates.

Mr. MCMILLAN. We assume there would be no loss to Exim in those transactions.

Mr. MULFORD. OK.

Chairman NEAL. Right now.

Mr. MCMILLAN. OK. Now, if Treasury had the $300 million war chest, would they necessarily be tied to Exim credits? They could be tied to commercial bank credits, could they not?

Mr. MULFORD. Well, I think there would be a preference to tie them to Exim credits, but I don't think it would be an absolute necessity. But our preference would be to join this with the Exim effort and to use it, as I have said, selectively.

Mr. MCMILLAN. That was my understanding in the first place, that the $300 million war chest would rely heavily upon Exim anyway in terms of its reserves, but it might not create the losses because they would be at market rates, correct?

Mr. MULFORD. It relies on Exim. I think it is important for everybody to understand this was made clear in the first testimony, but the Treasury is not going to get into Exim's business here.

Treasury is not going to insert itself as an export credit financing institution. It simply has control over the release of these war chest funds when Exim is processing applications and comes up with something that requires a predatory response. We then make

up a package that is predatory in nature, that is, a mixed credit package that competes effectively. The war chest is used for that particular piece of business, which means that it can be carefully targeted.

But the finding of the business, the processing of the application, the presentation of the business all still lies in Eximbank. We are depending upon their general resources, manpower, talent, connections, et cetera.

But we are hoping that this will be a fund that they turn to when, as they have already done in these first six cases, they find projects that require this kind of response. They can turn to the fund for the congressional element without accelerating the depletion of their reserves.

Mr. MCMILLAN. I buy the approach. I was one of the 19 that voted for the approach in the first place.

I am trying to get, though, the issue of alternative cost. It seems if Exim is going to provide the balance of the financing on top of the $300 million in grants, I still don't understand why it is more costly, if that $300 million were taken out of existing Exim resources as opposed to bringing in additional funds for the interim period.

Our problem is not supporting the concept you are suggesting.

Chairman NEAL. To follow up on Mr. McMillan's questions, in either case, the money would have to be borrowed. The money used would have to be borrowed.

You can borrow $300 million—there is no pool of money sitting somewhere we can just dip into. The money, the $300 million, to use the Eximbank approach of buying down interest rate, has got to be borrowed. If you use this $300 million approach, it has got to be borrowed. There is no difference at that point.

There is no difference impact on credit markets, no difference in the cost to the Federal Government. It is all the same.

Mr. MCMILLAN. There is a difference in the impact on Eximbank.

Chairman NEAL The difference in cost comes in the two alternative approaches to subsidizing and the testimony we have had this morning, and it is my assumption all along also, that it is more efficient and less costly to use the grant approach than to use the approach of buying down interest rates, as Exim is proposing to do, should the war chest not pass in these initial loans. In fact, which it only has the authority to do; it doesn't have the authority to make the grant.

So that is—I believe that gets to the heart of the question. Which is more costly? It is more costly, we hear in the testimony, I agree, to do it through the interest buy-down than appropriating the money now and using this approach.

I just think we ought to clear that up. If there is any doubt about that, let's try to clear it up.

This does not speak at all to the effectiveness of it. We have heard testimony obviously that it is much more effective to appropriate new money. But let's just, on this question of cost——

Mr. MULFORD. The interest buy-down takes place over 30 years. The grant element is used up front in the way that points are in a mortgage.

Chairman NEAL. You are going to supply some written data?

Mr. MULFORD. Right, we are going to supply written data that will set this out. I think it is easier to supply something you can look at than just bat it around here. The result is clearly demonstrable.

Mr. GROTBERG. Mr. Chairman, will the chairman yield?

Chairman NEAL. Yes.

Mr. GROTBERG. An analogy has come to mind that may simplify the whole thing. The difference is borrowing the money for the downpayment on your car or if you have money to make a big downpayment, the less interest you will pay over the life of the loan.

Now, we have got to borrow money for the downpayment because we haven't any money, so you are going to have to sell $300 million in notes next Tuesday morning to cover this like you do everything else at 9 percent or 8.9, or whatever it is going to be, and that is the cost of the taxpayers forever till we get the debt down.

You are absolutely right; it costs both ways. The fact is we want to buy a new car and we don't have the downpayment to bring the ultimate rate down to everybody, so we are going to tap the people and say that we got it for nothing and we didn't. We got it at the going rate of Treasury bonds like the rest of the $200 billion debt. That is not good or bad, but that is how it is.

Mr. LEVIN. Mr. Chairman.

Chairman NEAL. Yes.

Mr. LEVIN. I think we need the information from the Treasury. When it came to Exim, the argument was interest subsidization might not be more expensive than loans. There was a lot of fuzziness about that because you didn't want to be stuck with the argument you were proposing something more expensive.

Now you are saying grant is cheaper than interest subsidization. This chart, attachment B, I just saw it for a few minutes earlier, doesn't seem to support that position, because if you look at the present value of the net loss, it is $62.2 million versus a grant element of $69.1 million.

So it would seem to indicate whatever the present, the impact this year and next year is on the deficit, which is a different issue, a different issue, I acknowledge, but in terms of the actual cost, it would appear from this that the six loans would be more cheaply for the Treasury undertaken, the six projects, excuse me, by the present Exim system than through the grant program. That is how I read this chart. I think it is rather clear.

It is true it is only $7 million, but we have all agreed we don't use the word "only" anymore in front of millions or billions. So we will await your fuller answer and explanation that differs from the first appearance of attachment B.

Let me just ask a couple of quick questions. What happens if the bargaining chip doesn't work? Don't we need a full-scale mixed credit program?

Mr. MULFORD. You mean a matching program?

Mr. LEVIN. Yes. Whatever you want to call it, defensive—we are tied up in football terms, or whatever.

Mr. MULFORD. We have experience up until now that has convinced us that the matching approach isn't enough to solve the problem.

As I said in my first appearance here, we need something that is a little more finely honed that we hope works in the negotiation to resolve the problem.

If it doesn't get resolved, then I think we have to think again about the issue and determine what our strategy is going to be at that time. At the time, it may not be the right response to fall back to a very large scale matching program which would become an entitlement for U.S. business.

I think it is probably better to think in terms of increasing the pressure to move the negotiations if you have to do it that way.

Mr. LEVIN. Let's say they failed. Let's say the Italians or the French say to you, one way or the other, no deal, as has been true over the years.

Mr. MULFORD. No. There has been movement over the years, but not enough.

Mr. LEVIN. But there is no deal.

Mr. MULFORD. There is not enough movement.

Mr. LEVIN. Let's say there is no deal.

Mr. MULFORD. I think there will be movement and the issue will look different at that time. We won't be looking at it quite as we are today.

There will have been some movement produced by this, I am confident of that. We will then be looking at a somewhat different situation that will require different assessments and judgments. We go from there.

Mr. LEVIN. Are you ruling out in terms of the administration's position—maybe I shouldn't ask this question, because I am afraid of the answer—because I think we have suffered from the absence of a matching program.

Mr. MULFORD. I think the negotiations would have been in a different position if there had been a more aggressive position of the United States over the years instead of opposition by the administration.

Mr. LEVIN. Let me put it this way. You are not ruling out, are you, any kind of matching program implementation of it if negotiations don't work 6 months or a year from now?

Mr. MULFORD. I am not ruling it out because, as I said, I think we have to assess the situation at the time. But I would say up until now matching programs, chiefly undertaken by others, have not worked. They have not——

Mr. LEVIN. We haven't had one, right?

Mr. MULFORD [continuing]. We have had a cost-effective matching program that has really been out there.

Mr. LEVIN. Have we had any?

Mr. MULFORD. We have tried to do matching business.

Mr. LEVIN. In terms of mixed credits, have we done anything?

Mr. MULFORD. Well, there was a matching program authorized but not funded.

Mr. LEVIN. So we haven't done anything.

Mr. MULFORD. Not much, some. There have been a few cases of business in which we have matched. But we are convinced that that is not enough to solve this issue.

Mr. LEVIN. On the credibility issue, one last question. Did the administration ever contemplate announcing the use of Exim through the six or seven projects without a $300 million war chest proposal?

I mean, the cat is out of the bag, but those of us who favor more aggressiveness, not less, are put in the position, as is true with other bargaining chips sometimes, of maybe hesitating to oppose it if the ultimate purpose is good.

Sometimes we do oppose the bargaining chip notion. But in this case, I am just curious: Was there any contemplation of getting Exim off the dime, of using that authorizing language without a $300 million war chest proposal?

Mr. MULFORD. My own assessment is that the Eximbank really can't afford to sustain this kind of program unless it has this type of support. Therefore, when this was conceived as the type of tool, one has to remember we had been through, during the first half of 1985, negotiations which produced some movement, but not enough.

Therefore, during the summer, we turned to the question of what can be done in the overall trade picture, and then within the mixed credit picture after insufficiently successful negotiations. We came up with what we thought was a good strategy, coupled with a good financing technique to carry it out. On that basis, it was decided Exim would go ahead with its preliminary commitments in this area, because the negotiations are a continuing process and we need to be effective in negotiations now. So it was seen as something that fit very closely with the war chest.

Mr. LEVIN. The facts are the facts, and what attachment A shows—and again, the cat is out of the bag or the horse is out of the barn, or whatever—you could have used the equivalent of the $300 million war chest proposal through Exim, through the authorizing legislation that went through this committee several years ago, and Exim would have been solvent through the end of 1987 into 1988.

Mr. MULFORD. That would have been a matching program, though, which we don't think is effective.

Mr. LEVIN. I don't think anybody has argued there is much of a difference in effectiveness between zero interest and a grant.

Mr. MULFORD. No. I think what we have in mind when we said predatory program is a program that overmatches.

Mr. LEVIN. Well, I don't think anybody—that is an argument we haven't considered in this committee, the difference between a direct grant and the softest of loans. And I must say when we took this up in the original hearings here, somebody said, and we will go back and get the testimony, I am not sure whether it was Treasury or Exim, that in terms of effectively combating mixed credit programs of the French and others, that we could do essentially the same thing with soft loans as we could with grants.

We will get that testimony and read it back to you.

If you are now saying that there is a qualitative difference in effectiveness between those two approaches, I think that is a new position. I say this in a friendly way.

I think we have been lax up until now. We have needed more aggressiveness, not less.

You ask us to answer Chairman Neal's question, the proponents of more aggressiveness in the position of asking questions as if we are unfriendly when we have been more than friendly, but allies of programs have to ask the hard questions if they are going to sell a program in committee and on the floor.

We have had so many bargaining chip arguments, Mr. Mulford, they are coming out of—somebody else said—our pockets or someplace else. You have to, through your answers today and your written answers, resolve the fiscal issues plus the one touched on by Chairman Neal at the beginning, and that is where you are going to get the $300 million.

I think Chairman Neal, to answer his question, is correct. Until there is an answer to the $300 million question, it is going to be—he said it would be impossible to get committee approval.

Chairman NEAL. You mean the budget question.

Mr. LEVIN. Yes. I think that is very close to the mark.

Mr. GROTBERG. Will the gentleman yield?

Mr. LEVIN. Yes.

Mr. GROTBERG. My question would be probably to you, Congressman, rather than the witness. Without the statute in front of me, do not all of the assets of the Eximbank belong to the taxpayers of America?

Chairman NEAL. Sure.

Mr. GROTBERG. Now, when you use that consideration, it is either a spend down of what they have or a new appropriation, right, if they were to follow this track?

Mr. LEVIN. New appropriation in 1988. There is a difference.

Mr. GROTBERG. The temptation is not to send an insolvent international banking program out to the world. I understand that.

But if push comes to shove, the taxpayers funded it. He who giveth can taketh away. If we did it, we still have the authority for the same thing. They would still have the authority to spend down; is that correct?

Mr. LEVIN. They already granted, allocated, or whatever, no final money for six projects.

Mr. GROTBERG. But over the deficit and the national emotion over the solvency of the Eximbank I think taxpayers could care less in general.

Mr. MCMILLAN. Mr. Chairman.

Chairman NEAL. Yes.

Mr. MCMILLAN. One more technical question.

Looking again just at the alternative of operating totally within Eximbank and then operating with the fund, it is pretty clear under the alternative of the preliminary authority granted that it would require a budget authority of $69.1 million additional to support that alternative approach in direct grants. Then that would be the budgetary impact that we would have to reckon with. We are talking about $300 million as a total.

Under the alternative approach, if you did this through Eximbank, what would be the budgetary impact of those commitments?

Mr. LEVIN. $69 million is not right away because the obligation in terms of outlays would be $17 this year and then——

Mr. MCMILLAN. I understand. What is the budgetary impact of the commitments already made in Eximbank ?

Mr. LEVIN. Well, this shows them over the long run. It is present value net loss of $62 million.

Mr. MCMILLAN. I know. But what figure ultimately flows through to the consolidated, the unified budget?

Chairman NEAL. Would the gentleman from Eximbank like to answer that question?

Mr. HESS. Yes. These are levels that are set in appropriations acts each year limiting the amount of direct loans that Eximbank can authorize in that year. The impact on that under the alternative would be $168.8 million, the figure on your right. The impact on that under a soft loan scenario would be the sum of $104.4 and $151.5 or approximately $255 million. So as you can see, there would be a considerably greater amount of Eximbank direct credit resources used up under the soft loan scenario than there would be under the Treasury grant scenario.

Mr. MCMILLAN. But with the same amount of total budget resources.

Mr. HESS. No. Those amounts would be charged against our budget resources for the year.

Mr. MCMILLAN. $255 million would be the budget impact—well, that is the question I am asking. How does that commitment by Eximbank impact on the budget itself? I don't care whether you use soft loans, hard loans or even if you had grant authority.

Mr. HESS. The impact on the budget itself would be in terms of the outlays resulting from those credits.

Mr. MCMILLAN. What about other authority though?

Mr. HESS. The budget authority was what I just explained. The impact would be greater under the soft loan approach because we would be making the entire amount of the loan rather than only our part of the loan as under the Treasury proposal. So the impact on the budget for the year would be greater under the soft loan approach in terms of using the authority that the Bank has to make new loans.

In terms of outlays resulting from those commitments, from the standpoint of the Government as a whole during the disbursement of the funds, there wouldn't be any difference. However, Eximbank's hard loans repay much more quickly than a soft loan would, so in the earlier years of the program, the budget impact would be less under the Treasury grant proposal because a larger amount of arrangement rate and term credit, which repays faster than the soft loan would come back into Eximbank. So the receipts in the early years would be greater under the alternative of the grant with a standard loan than they would be under the alternative of a soft loan plus a standard loan. Thus the budget impact in those early years would be less under the grant proposal.

Mr. MCMILLAN. Over time?

Mr. LEVIN. That is right. The life cycle of the impact is less under the soft loan according to this chart.

Mr. HESS. You can't tell that from this chart. Assuming the grant approach is cheaper, over the life cycle a soft loan would

probably be very close to being the same or slightly better than the grant.

Mr. MORRISON. That is not what the chart says. The chart says the present cost is $62 plus $69.

Mr. HESS. I would like to address that for a second. This chart was not developed for the purpose of comparing the costs between the two methods. The present value figure, which is shown there, is based on the loss, net loss figure, which is right next to it, and it is discounted at a rate that represented at the time Eximbank's marginal cost of funds.

Mr. MORRISON. Which is what?

Mr. HESS. At the time the schedule was prepared, 10.27 percent. Eximbank's marginal cost of funds has dropped. Today that present value and that loss would be higher because the discount rate has fallen. So a lot of that calculation really depends upon when you make it and the characteristics of the loans themselves, how they really repay. Consequently you can't compare very well the $62.2 to the $69.1. They are really not directly comparable figures and weren't intended to be.

Chairman NEAL. Let me ask this question of my colleagues, if I may. Have your questions, especially those who questioned the approach to funding—leaving the budget question aside for a minute, because I myself still have some unanswered questions about that—and trying to think ahead to when we go back to the full committee, I am wondering if the result of this hearing has been satisfactory to other members of the committee on these questions that were raised?

Mr. MORRISON. Will the chairman yield?

Chairman NEAL. Yes.

Mr. MORRISON. I certainly think I have an understanding of what the alternatives are and the choices about that. I don't think we have had clarified, as you have said, we haven't had clarified where this $300 million comes from. I think the best one can say of what the testimony is, what is being asked for is $300 million above and beyond anything that exists anywhere else and that is the budget answer unless and until some other tradeoff is presented to us by OMB.

But certainly beyond that, if the question is—from this Member's standpoint, that doesn't answer the question of whether we ought to approve it today, but I think we have got clear what the Treasury sees as its preference for moving in the direction of a separate fund rather than doing it through Eximbank.

Chairman NEAL. May I ask the gentleman what is his feeling toward that? Have you decided that you think it is better to appropriate the money or to do it through Eximbank or——

Mr. MORRISON. I don't say that I have made a determination on that. I am persuaded, I find the argument of avoiding creating a permanent entitlement before we know where this is going, to be an important argument and I share that concern. So I would be inclined to go along.

My major difficulty is hearing this administration, which has criticized over and over again the appropriation of new funds and new programs for equally legitimate purposes for the needs of this country, glibly saying to us, well, this is important and the world

will be better if we spend this money. I don't mind that argument. I do mind it coming at the same time as we tell the American people they don't have to pay for it.

So the notion that this stands out there as a new appropriation without being paid for either by a cut in another program or by new taxes to pay for it is a bore to me. I think it is inconsistent with the rhetoric that we hear about other programs that are favored by different people at different times. I think that is how we get into the problem that we are in. This may be an inconvenient moment to continue that point but in the face of the Gramm-Rudman proposal and all the rest that we face, it seems to me that this has to be raised about new programs.

We certainly suffered that kind of an attack on housing programs, which weren't even new programs in the sense that they didn't cost more than the existing programs, they cost less than the existing programs, but they were criticized as inappropriate in our budget circumstances even though they provided housing to people who are homeless and jobs to people who construct housing.

So it seems that we have elucidated the facts and I want to look further at where the money is going to come from. I think we ought to pay for new programs either by cutting elsewhere or by raising taxes.

Chairman NEAL. You know, I quite agree with the gentleman and with his sentiments on this question of new spending. I have set that aside because that just seems to be so impossible to deal with. This administration created far and away the biggest new program in the history of the world, this program of new interest on new national debt. I mean, that is the fastest growing program in the Federal Government. It is a total creation of this administration's programs and it far and away is bigger, by the way, than all the welfare programs put together. I am just talking about new interest on new national debt.

So I mean I really sympathize with your concern about this, but I am also trying to put this in another category, just as I would housing, which I also supported and asked the question. Do we as a Nation face a problem seriously enough for us to want to do something about it? If so, what shall we do? And then how can we do what we want to do most efficiently, most effectively. As a result of that, I think we face a serious problem here. It is costing us jobs and profits. It is weakening our posture in trade.

There is a way I believe that we could deal with it. I don't think anyone can guarantee the success of this. I don't think we need know for sure, but I think there is a good opportunity and I think it is also clear to me the most honest and efficient and effective way to do it is to appropriate the $300 million.

Mr. MORRISON. I don't happen to be one of those people who is anti-Government and doesn't think the Government should spend money in order to do things that are good for the American people. That is somebody else's argument, but I do think that we have to tell the American people what it costs to do things and we have to be willing to stand up and tell them that we don't have the money and we need their help to get the money either by paying more taxes or doing without something that is less important, and it is the lack of willingness—and I think all politicians have committed

sins in that regard, but this administration wins a rather large prize for having done that, and we can't continue with that.

So what we did in housing was we learned to live within existing resources and then we cut even more out of that in order to do a job we aren't nearly doing. We are only doing one-third, for instance in the amount of assisted housing that we were doing in 1980. Nonetheless, that is the reality we have to deal with.

This $300 million should come from somewhere, is my view. I don't think we can pass the budgetary question because that is how we get to the problem, whether it is military spending, or housing, or trade. I am glad to see the administration moving toward a more affirmative trade program. I think our weakness there is too little policy, not too much policy. So I am not an opponent of a policy, and the more coherent, the better, and the more aggressive the better. I am in favor of that. But I do think we ought to answer both questions at the same time, and I think we ought to find the $300 million somewhere and I think the administration should help us consistent with their rhetoric about being responsible on the budget.

Chairman NEAL. Let me ask a question, if I may. I don't mean to put anyone on the spot.

Mr. LEVIN. We will respond. Mr. Morrison has eloquently—and I think Mr. McMillan and I, we have the fullest respect for you, give you an answer even if it is not absolutely correct. Mr. McMillan, do you want to go next?

Mr. MCMILLAN. I still have one remaining question because we have had a lot of conversation in here and I don't think we are arguing about the concept. What you are trying to do, as indicted by the committee's 19–0 vote in support of the proposal in the first place, we are trying to come to grips with the budget problems that it imposes. It may be only $300 million but that is how the budget gets to $1 trillion, in maybe $300 million increments. I am still a little hazy on that point. The Eximbank authority in the 1985 budget is for what amount this year?

Mr. HESS. In the 1985 budget it was $3.8 billion, but that authority has expired. It is not available in 1986.

Mr. MCMILLAN. Already expired?

Mr. HESS. Yes, sir.

Mr. MCMILLAN. How is that? You have already used it up?

Mr. HESS. No, sir. The fiscal year ended and at the end of the fiscal year——

Mr. MCMILLAN. Excuse me, I meant to say 1986.

Mr. HESS [continuing]. We are operating under a continuing resolution for 1986. The current House version of the CR would provide $784 million.

Mr. MCMILLAN. How much of that has been committed so far?

Mr. HESS. I don't know off the top of my head, sir.

Mr. MCMILLAN. So in the budgetary issue we are facing it is increasing to this activity albeit one targeted and separated, we are increasing the budget authority from $784 million to $1 billion, $84 million. Isn't that the final budget authority impact of what we are faced with?

Mr. HESS. If the $784 million would be enacted into law, and $300 million of mixed credits were authorized this year, the $300 million would come out of the $784 million.

Mr. MCMILLAN. If it came out of the $784 million that would be all we would have to authorize. We would simply say take the $300 million out of the $784, is that correct?

Mr. HESS. That is correct. If we have to do it in terms of mixed credit, yes.

Mr. MCMILLAN. I think that is the basic decision and I am——

Chairman NEAL. Your question has to do with whether or not we ought to appropriate the money or just take it out of Eximbank?

Mr. MCMILLAN. That is what I have been trying to get at and if all they have got is the $784 million to operate under this year in conducting their normal activity—and granted you have prior commitments—that is a pretty heavy stroke from a budgetary standpoint.

Mr. LEVIN. Of course, there is more requested in the Senate, on the Senate side.

My feeling is I think that is one good way to phrase it, Mr. Chairman. I think this has been a helpful hearing. Underlying the concerns of a lot of people is the question whether the administration, with its $300 million war chest was really more concerned about making political points at home than fighting for jobs in our deliberations with our competitors overseas.

Mr. Mulford is not only articulate, that is very clear, but an ardent witness, and I think there is a tendency here to want to arm you as fully as possible to take the statements at face value. The past record of this administration on mixed credits would give credence to the argument this is more to score points domestically than to fight trade battles internationally.

I do think that it would help if Eximbank could describe or persuade us a little more fully with whatever information might be available that it will use its authority, its direct loan authority, this fiscal year, unlike previous years. If we thought they were going to be—last year there was three—how much unused authorization was there last fiscal year? Two point something billion?

Mr. HESS. $3.2 billion.

Mr. LEVIN. $3.2 billion unused authorization last year. It would have been so easy to fit the $300 million within $3.2 billion. Now there is a request for $300 with a much lower direct loan authorization, sure to go through, as you point out. So I think it would be helpful—I know you can't give us lots of details, but I think it would be helpful to have a statement from Eximbank with as much detail as possible, supported by Treasury, as to what your estimates are as to needed direct loan authority in 1986.

I personally think you have weakened your bargaining chip argument by saying that if this matching program, whatever you want to call it, doesn't work you are not very red hot about continuing it. To me, that is not very effective negotiations. You haven't said that you won't continue it but you are not sure to continue it if they continue their practices. I am for a more aggressive, not less aggressive program. I think, by putting such a time limit, such tentativeness or temperariness on this, they may be tempted to wait you out.

Mr. MULFORD. Can I just comment on our point there? From the standpoint of a negotiating strategy what we have in mind here is not a matching program. That is very important to understand. What has been proposed in the past has been more use of money to match the terms offered by others. We have taken the view that that is unlikely to be successful. This proposal goes further than matching. It takes business away, therefore, if this is unsuccessful even when you offer matches, it is very hard to be very enthusiastic about turning back a less aggressive approach, if I could use those words, and just merely match.

That is why I think you have got to reconsider the whole question at that point, because we have gone further in this proposal than just matching terms offered by others. We are actually going beyond it and taking business away on a selective basis. That is a costly exercise. But it is more aggressive than was being proposed in the past by members of this committee.

Mr. LEVIN. You know the bells are ringing. Let me just say I think a moderately aggressive, if you want to call it that, approach on a long-term basis might have been more effective than this more direct, more aggressive—in quotes—approach no one short way. I wish we had been trying it all along.

We will have to get to the $300 million question, where it is coming from, not today but before it is taken up by the committee.

Chairman NEAL. The budget.

Mr. LEVIN. I hope Mr. Mulford takes that back to the administration.

Mr. MULFORD. I will.

Chairman NEAL. Let me ask the subcommittee, are there any other questions?

Mr. GROTBERG. You have been fabulous, Mr. Chairman.

Chairman NEAL. Let me thank the witness. The subcommittee is adjourned.

[Whereupon, at 12:10 p.m., the subcommittee was adjourned.]

APPENDIX

Additional Material Submitted for Inclusion in the Record

CONGRESSIONAL BUDGET OFFICE
U.S. CONGRESS
WASHINGTON, D.C. 20515

Rudolph G. Penner
Director

NOV 27 1985

November 27, 1985

Honorable Fernand J. St Germain
Chairman
Committee on Banking, Finance and Urban Affairs
U.S. House of Representatives
Washington, D.C. 20515

Dear Mr. Chairman:

Thank you for the letter of November 21, 1985, concerning the functional category of the Competitive Tied Aid Fund and its impact on other programs under the jurisdiction of the House Banking Committee as authorized in H.R. 3667, the Competitive Tied Aid Fund Act.

Under current law, the President determines functional categories in consultation with the Committees on Appropriations and the Budget of the House of Representatives and the Senate. The Congressional Budget Office has no direct role in the matter. The Office of Management and Budget proposes to include the Competitive Tied Aid Fund in subfunction 155, International Financial Programs, and that appears to us to be appropriate .

Assigning a new program to a particular subfunction does not have any effect, in and of itself, on other programs. The Concurrent Resolution on the Budget for Fiscal Year 1986 sets aggregate budget authority and outlay ceilings and allocates these to Committees under section 302(a) of the Budget Act. H.R. 3667 authorizes an appropriation of $300 million, which would have to come out of the Appropriations Committee allocation. Since the Competitive Tied Aid Fund is a newly proposed program, it was not anticipated in the Budget Resolution for Fiscal Year 1986. Assuming an appropriation in fiscal year 1986 and that the Appropriations Committee stays within the 302(a) allocations, other programs that were assumed in the Budget Resolution would have to be cut. What programs would be affected is up to the discretion of the Appropriations Committee.

For your information, I am enclosing a preliminary cost estimate of H.R. 3667 as marked-up by the Committee on Novmeber 20, 1985.

With best wishes,

Sincerely,

Eric Hamburger

for Rudolph G. Penner
Director

Enclosure

cc: Honorable Chalmers P. Wylie
Ranking Minority Member

Congressional Budget Office
Cost Estimate

November 26, 1985

1. BILL NUMBER: H.R. 3667

2. BILL TITLE: Competitive Tied Aid Fund Act

3. BILL STATUS:

As marked-up by the House Committee on Banking, Finance and Urban Affairs on November 20, 1985.

4. BILL PURPOSE:

The bill authorizes the appropriation of $300 million for a Competitive Tied Aid Fund to be administered by the Secretary of Treasury.

5. ESTIMATED COST TO THE FEDERAL GOVERNMENT:

(By fiscal year, in millions of dollars)

	1986	1987	1988	1989	1990
Authorization amount	300	0	0	0	0
Estimated outlays	17	61	76	62	36

The costs of this bill fall in budget function 150.

Basis for estimate

The estimate assumes enactment of this legislation in December 1985 and subsequent appropriation of the amounts authorized in fiscal year 1986.

Outlays are estimated using historical spend-out rates for the Eximbank direct loans. The estimates assume the preliminary commitments for highly concessional loans now being written by the Eximbank will be converted to tied-aid loans.

EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503

DEC 2 1985

Congressman Stephen L. Neal
Chairman
Subcommittee on International Finance,
Trade and Monetary Policy
U.S. House of Representatives
Washington, D.C. 20515

Dear Mr. Chairman:

This responds to your letter of November 22nd seeking additional information regarding my November 20th letter to the full Banking Committee and requesting that I designate an OMB official to testify at your December 3rd hearing.

As you presumably are aware, my letter to the Committee prior to the planned committee meeting of November 21st was in response to an urgent request by the Committee. The Committee reportedly had concerns about the budgetary treatment of the "Competitive Tied Aid Fund Act." Treasury officials were advised and informed us that the Committee would not give final consideration to the war chest bill unless OMB sent a letter which stated: 1) how the "war chest" would be scored, and 2) whether this scoring would impact on housing programs or other international financial institutions (MDB's).

Consequently, I sent a letter on November 21st indicating what the Committee no doubt would normally assume: namely, that the war chest, as a part of the Export-Import Bank activities would be categorized as an international financial program, and presented in sub-function 155 for budgetary and scoring purposes. As you know, sub-function 155 contains programs to improve the functioning of the international financial system and to facilitate U.S. participation in world trade. In addition to Export-Import Bank, these programs include the International Monetary Fund, the International Commodity Agreements, the Foreign Military Sales Trust Fund and the Special Defense Acquisition Fund.

Regrettably, despite my letter addressing what I understood the Committee's concern to be, the Committee did not move to consider the bill. As you are aware, passage of this war chest legislation is an important part of the President's recent trade initiative. For this reason, the Administration transmitted authorizing legislation two months ago, on September 26th.

Regarding your further questions, the timing of an appropriation request and potential budget offsets are still under Executive Branch consideration. Since a decision has not been reached yet, it would be inappropriate to discuss these matters with your subcommittee. Therefore, I respectfully decline your request to have an official of the OMB testify at your December 3rd hearing.

Sincerely yours,

James C. Miller III
Director

BELGIAN EMBASSY
3330 GARFIELD STREET, N.W.
WASHINGTON, D.C. 20008

December 9, 1985

DEC 1[illegible]

Congressman Stephen L. Neal
U.S. House of Representatives
Chairman, Subcommittee on
International Finance, Trade
and Monetary Policy
House Committee On Banking, Finance
and Urban Affairs
Room H2-139 - Annexe 2
Washington, D.C. 20515

Dear Mr. Neal,

Please find enclosed a copy of the note on mixed credits which I delivered on December 6, 1985 to Mr. William Milam, Deputy Assistant Secretary of State for International Finance and Development.

The note requests a clarification of the record of the proceedings of the hearing on mixed credits held on October 16, 1985 by the Subcommittee on International Finance, Trade and Monetary Policy of the House Committee on Banking, Finance and Urban Affairs.

The records should point out that Belgium reported mixed credit offers between $170 and 200 million in 1984, instead of nearly $450 million as alleged by Mr. William Draper III, President of Eximbank during the abovementioned hearings.

We would therefore appreciate that the record be amended by including the enclosed note in the proceedings of the aforementioned hearing.

Thanking you for your kind attention to this matter,

I remain,

Sincerely yours,

H. van Houtte
Economic Minister

Enclosure: one note.

AMBASSADE DE BELGIQUE

The Embassy of Belgium presents its compliments to the Department of State and wishes to refer to the question of mixed credits.

During a hearing on mixed credits held on October 16, 1985 by the Subcommittee on International Finance, Trade and Monetary Policy of the House Committee on Banking, Finance and Urban Affairs, it was alleged by Mr. William H. Draper, III President of Eximbank, that Belgium offered nearly $450 million in mixed credits in 1984. The Belgian Government takes strong exception to the aforementioned figure of $450 million, since it represents more than double the amount of mixed credit offers with a grant element below 50% reported by Belgium in 1984. As communications between Eximbank and the Belgian Export Credit Agency have since then indicated, the $450 million number erroneously includes cases of official development assistance without export credit.

The Belgian Government would therefore appreciate that the record be amended. It insists to the Administration that the figures be corrected in the proceedings of the abovementioned hearing. The records should point out that Belgium reported mixed credit offers close to 10 billion Belgian Francs i.e., between $170 and 200 million in 1984, depending on the value of the exchange rate retained.

The Department of State
Washington, D.C.

Finally, the Belgian Governments regrets that confidential information made in the context of the consensus has been publicized by one of the partners to the OECD arrangement.

The Embassy of Belgium avails itself of this opportunity to renew to the Department of State the assurances of its highest consideration.

Washington, D.C., December 5, 1985.